

STATE OF INDIANA

State Revolving Fund Loan Programs



Drinking Water State Revolving Fund Loan Program (DWSRF)

**Annual Report
SFY 2007**

July 1, 2006 through June 30, 2007

STATE OF INDIANA
DRINKING WATER STATE REVOLVING FUND LOAN PROGRAM
STATE FISCAL YEAR 2007 ANNUAL REPORT

I. INTRODUCTION

Pursuant to 40 CFR 35.3570, the State of Indiana (State), acting through its Indiana Finance Authority (Authority), submits an Annual Report for the Drinking Water State Revolving Fund Loan Program (DWSRF Loan Program) to the Regional Administrator of the U.S. Environmental Protection Agency (EPA), Region V.

This Annual Report is for State Fiscal Year (SFY) 2007 (July 1, 2006 - June 30, 2007). It is prepared in accordance with Section 1452 of the Safe Drinking Water Act (SDWA), as amended, 42 U.S.C. 300j-12, and with 40 CFR 35.3570.

II. PROGRAM MANAGEMENT - 40 CFR 35.3570 (a)(3)(i)

As set forth by Indiana Code 4-4-11, the Authority administrates the DWSRF Loan Program. Indiana Code 13-18-21 governs the establishment and administration of the DWSRF Loan Program.

III. GOALS AND OBJECTIVES OF THE SFY 2007 INTENDED USE PLAN – 40 CFR 35.3570 (a)(1)

The purpose of the DWSRF Loan Program is to provide low-cost financial assistance in order to construct necessary and environmentally sound drinking water infrastructure; to facilitate statewide compliance with state and federal drinking water standards; to maintain a fiscally self-sufficient program as a continuing source of funding for improvement and protection of public health; and, to conduct any other activity permitted by the Safe Drinking Water Act. To accomplish these intentions, the State set short-term and long-term goals and objectives. Short-term goals and objectives are those the State expected to achieve during SFY 2007, while long-term goals and objectives are those the State expects to achieve over a longer course of time.

The goals and objectives of the SFY 2007 Intended Use Plan (IUP) and a description of how the DWSRF Loan Program has achieved these goals or is working toward them are in Exhibit A.

IV. STATE MATCH – 40 CFR 35.3570 (a)(3)(ii)

The State has fully met its State Match requirements through the end of SFY 2007 and anticipates that it will continue to do so principally by means of depositing net proceeds in the DWSRF from revenue bonds payable solely from SRF earnings. Approximately \$2.5 million of additional State Match was deposited in the DWSRF Loan Program in SFY 2007. To date, the DWSRF Loan Program State Match has aggregated in excess of 20% of the awarded \$124,269,100 capitalization grants (Exhibit B) through June 30, 2007, as summarized in the table of cumulative State Match set forth in Exhibit C. This report details State Match deposited in the DWSRF Loan Program through the end of SFY 2007, the sources of such State Match, and how repayment of revenue bonds providing any such State Match has been (and will continue to be) managed in a manner consistent with federal and state law.

V. FUNDS AVAILABLE AND BINDING COMMITMENTS – 40 CFR 35.3570 (a)(3)(iii)

During SFY 2007, the DWSRF Loan Program closed ten loans totaling \$61,478,000. Since the DWSRF Loan Program's inception in 1997, 107 loans aggregating approximately \$296 million have been closed, which is more than two times the amount in federal capitalization grants that have been awarded to the DWSRF Loan Program (\$124,269,100). The DWSRF Loan Program disbursed \$56,236,399 to Participants in SFY 2007 to fund projects that were previously financed with a DWSRF Loan Program loan.

The DWSRF Loan Program is a leveraged program and has established itself as a highly rated borrower in the national bond market. The State has utilized its capitalization grants to leverage multiple series of bonds, aggregating over \$259.1 million in outstanding principal as of June 30, 2007, a portion of which has funded DWSRF Loan Program loans. A summary of the accounts and associated balances are set forth in Exhibit D: Expeditious and Timely Use of Funds, attached hereto. Future bond issuances are expected to be used to fund new commitments related to new loans in future years. The balance of the bond proceeds not available for loans are used for reserve funds, administrative expenses, costs of issuance, etc.

A. Interest Rates

The State recognizes the continued need to balance the level of subsidy (that is, the cost of offering loans at below-market interest rates) with the inherent limited capacity of the DWSRF Loan Program to meet demand for loans and community affordability constraints. This balancing is reflected in the State's present interest rate policy.

Interest rates applied to new loans are reset on the first business day of each January, April, July and October using a Base SRF Program Interest Rate (Base Rate). The Base Rate is calculated by using 90 percent of the average 20-year, AAA-rated general obligation bond Municipal Market Data (MMD) composite index for the most recent calendar month. The Base Rate is then discounted further based upon a borrower's Median Household Income (MHI) from the 2000 Census data and projected user rates. User rate information is reviewed by the DWSRF Loan Program staff to finalize a DWSRF Loan Program interest rate.

The DWSRF Loan Program interest rates ranged from 0% to 4.39%, during SFY 2007. A summary of the actual interest rates for each quarter of SFY 2007 is set forth in Exhibit E, attached hereto.

The subsidized DWSRF Loan Program interest rate has provided aggregate savings of \$11,005,040 to Participants closing a DWSRF Loan Program loan during SFY 2007. See Exhibit F for savings provided to each Participant.

B. Terms

Consistent with applicable law, all DWSRF Loan Program loans closed in SFY 2007 were structured with annual principal repayments commencing one year after expected completion of the proposed project and a final principal payment no later than 20 years after expected completion of the proposed project.

C. Other Assistance Provided

During SFY 2007, the DWSRF Loan Program reached capacity, meaning the program had committed all of its available funds for fully subsidized loans for SFY 2007. In response, the State developed the "SRF Pooled Program," which offered eligible Participants the "AAA" interest rate that is available to the SRF Loan Program at the time of their loan closing. Most Participants realized substantial savings when compared to their "open market" rate. SRF Pooled Loan closings occurred in December 2006 and May 2007; interest rates ranged from 3.95% to 4.39%. The DWSRF Loan Program expects to continue the SRF Pooled Program.

The DWSRF Loan Program did not refinance any projects during SFY 2007.

D. Requirements for Loan Closing

The State requires each DWSRF Loan Program Participant to establish a dedicated source of payment for all loans made by the DWSRF Loan Program and cause such loans to be paid according to their terms. The State

generally expects each loan to be evidenced by bonds (or other evidence of indebtedness) issued by or on behalf of the Participant. For a summary of all loans closed by the DWSRF Loan Program during SFY 2007, please see Exhibit G.

E. DWSRF Loan Program Financial Statements

1. The DWSRF Loan Program is audited annually by an independent certified public accounting firm. For the SFY 2007 ended June 30, 2007, the DWSRF Loan Program received an unqualified opinion from an independent auditor, which is provided as Exhibit H.
2. The DWSRF Loan Program is audited annually for compliance with the requirements set forth in the U.S. Office of Management and Budget (OMB) Circular A-133. For the SFY 2007 ended June 30, 2007, the DWSRF Loan Program was determined to be "in compliance," as noted in the Schedule of Expenditures of Federal Awards and OMB Circular A-133 Auditor's Reports. The A-133 report is provided as Exhibit I.

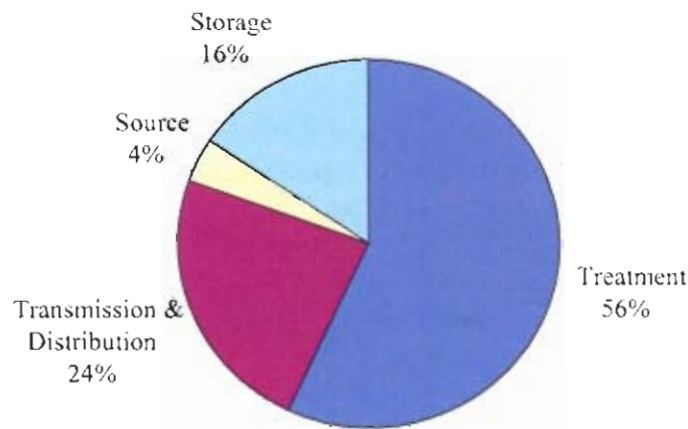
F. Federal Requirements

The State has fulfilled all applicable federal requirements: assurances and certifications provided in the IUP have been met; closed loans equal more than the required 120% of each quarterly capitalization grant payment and were made within one year of receipt of all payments; all funds have been used in a timely and expeditious manner; and environmental reviews have been done in accordance with federal and State law. All loans made during the SFY 2007 had related projects listed on the State's Project Priority List (PPL).

VI. PROJECTS FUNDED – 40 CFR 35.3570 (a)(3)(iv)

During SFY 2007, the DWSRF Loan Program closed ten loans totaling approximately \$61.5 million, resulting in a cumulative total of 107 loans closed aggregating approximately \$296 million. The description of each project funded in SFY 2007 is attached in Exhibit J, along with a map showing the location of these projects, attached as Exhibit K. A map showing the location of all projects funded since the inception of the DWSRF Loan Program is attached as Exhibit L. The scoring and ranking system of the DWSRF Loan Program continued to focus on those projects with the greatest public health need. The SFY 2007 Loan Dollars by Project Type graph below shows that over half of SFY 2007 loan dollars funded transmission and distribution type projects. In SFY 2007, treatment projects accounted for 56% of loan dollars financed.

SFY 2007 Loan Dollars by Project Type



VII. ELIGIBILITY – 40 CFR 35.3570 (a)(3)(v)

All projects funded during SFY 2007 were reviewed for eligibility. It is the goal of the DWSRF Loan Program to ensure that each project:

- √ allows the Participant to achieve or maintain compliance with the SDWA;
- √ allows the Participant to provide water of adequate quality and quantity to residents;
- √ allows the Participant to meet technical, financial, and managerial capacity (or that the system applying is already meeting capacity requirements);
- √ does not cause environmental concerns for the Department of Environmental Management (Department) or other environmental review authorities. Prior to funding, each project was reviewed in accordance with the State's EPA-approved Environmental Review Procedures (SERP).

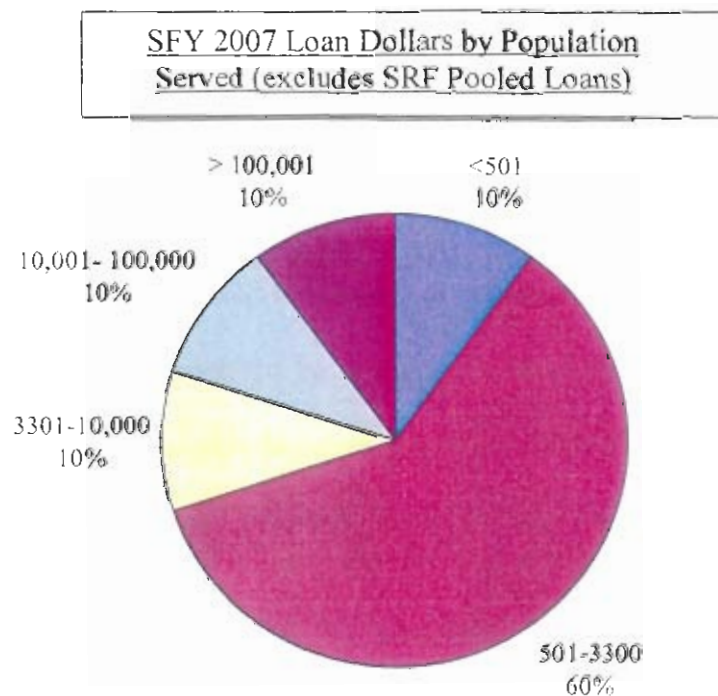
In SFY 2007, 90% of projects and 99.5% of loan dollars assisted compliant public water systems to maintain compliance.

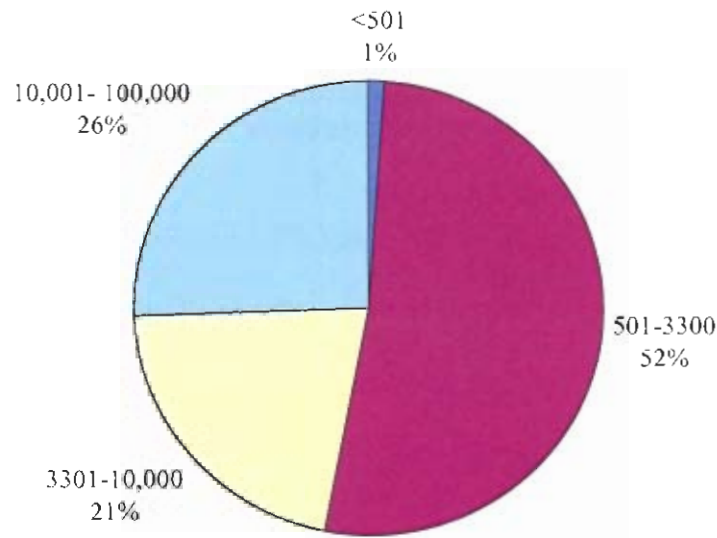
VIII. SET-ASIDES – 40 CFR 35.3570 (a)(3)(vi)

From SFY 1997 to SFY 2003, the Department was the capitalization grant recipient and is responsible for managing those set-aside funds. The Authority is responsible for managing the remaining set-aside funds. See Exhibit M for a summary of set-aside activities and balances.

IX. ASSISTANCE TO SMALL SYSTEMS -- 40 CFR 35.3570 (a)(3)(vii)

A small system is a public water system that regularly serves 10,000 or fewer persons. In SFY 2007, 80% of DWSRF projects were for public water systems serving less than 10,000 people (see Population Served by DWSRF Projects in SFY 2007). Also in SFY 2007, approximately 74% of dollars were loaned to systems serving populations less than 10,000. This figure excludes projects financed by SRF Pooled Loans; see SFY 2007 Loan Dollars by Population Served.





X. DISADVANTAGED COMMUNITIES – 40 CFR 35.3570 (a)(3)(viii)

The State defines a disadvantaged community as one with both 1) a Median Household Income (MHI) below \$33,669, as established by the 2000 US Census, and 2) an estimated post project user rate greater than \$45.00 per month. These communities are eligible to receive the lowest interest rate the State provides to DWSRF Participants. See Section V.A. of this report for a description of the DWSRF Loan Program's interest rate structure. The State does not currently provide principal forgiveness or negative interest rate loans.

During SFY 2007, approximately \$ 51 million was provided to seven disadvantaged communities. The total disadvantaged population served was 271,286 persons.

XI. FEES – 40 CFR 35.3570 (a)(3)(ix)

The costs of making and securing loans include the fees and expenses of bond counsel, DWSRF Loan Program Counsel, and the cost of making appropriate municipal disclosures. The State may require Participants to offset some of these costs through a Loan Closing Fee, which is \$1,000 per Participant. The DWSRF Loan Program may also assess a Non-Use Fee on funds not used for project costs two years following the loan closing. In SFY 2007, the DWSRF Loan Program collected \$9,000 in Loan Closing Fees. The DWSRF Loan Program has not collected Non-Use Fees from a Participant, to date.

XII. TRANSFERS – 40 CFR 35.3570 (a)(3)(x)

The State permits transfers between the DWSRF Loan Program and the CWSRF Loan Program of capitalization grants and other funds held in or allocable to such funds to the extent permitted by the Clean Water Act (CWA) and the SDWA. For a summary of transfers, see Exhibit N.

XIII. CROSS COLLATERALIZATION – 40 CFR 35.3570 (a)(3)(xi)

To the extent permitted by the CWA and the SDWA, and their incumbent regulations, the State has cross-collateralized the CWSRF and the DWSRF Loan Programs to optimize their capitalization requirements and to better manage the specific funding needs of projects assisted through them.

This cross-collateralization arrangement maximizes the security for bonds issued by the State to capitalize the SRF Loan Programs. Accordingly, this could relate to and affect all types of funds held in them. The State expects that any such transfers would occur at any time necessary to prevent a default on any such bonds and would be made between accounts established for like purposes and subject to like restrictions. To date, no transfers of this nature have been made.

The State expects to retain the flexibility to reimburse, on a cumulative net basis, any transfers made under a cross-collateralization arrangement. Because such a cross-collateralization arrangement is a contingent security concept and transfers are not expected or planned to occur, the State does not expect this arrangement to affect negatively the funding capacity of the SRF Loan Programs. However, if such transfers occur and are not reimbursed, it may affect the SRF Program's ability to make some volume of additional loans it otherwise might have been able to make.

XIV. ENVIRONMENTAL REVIEW– 40 CFR 35.3570 (a)(3)(xii-xiii)

All DWSRF Loan Program-funded projects and activities were in compliance with Federal Cross-Cutting Authorities and State environmental review procedures.

XV. COMPLIANCE WITH 40 CFR PART 31 – 40 CFR 35.3570 (a)(3)(xiv)

The DWSRF Loan Program complied with all requirements of in 40 CFR Part 31.

Exhibit A

DWSRF Loan Program Report on Goals and Objectives of SFY 2007

Short-term goals and objectives are those the State expected to achieve during SFY 2007, while long-term goals and objectives are those the State expects to achieve over a longer period. The work towards the DWSRF Program SFY 2007 short- and long-term goals and objectives is as follows:

A. Short-Term Goals and Objectives

(ST1) Seek the immediate award of the 2007 Capitalization Grant. Continue to disburse loan proceeds such that the 2007 Capitalization Grant can promptly be deposited and, as expenditures are incurred or paid, be converted to cash.

Indiana SRF was the first program in Region 5 to submit its Capitalization Grant application to US EPA (November 1, 2006). EPA awarded the 2007 Capitalization Grant on May 30, 2007.

(ST2) Evaluate the success of the DWSRF Loan Program in terms of the number of DWSRF funded projects that provide the following public health benefits:

- Achieve compliance with the Safe Drinking Water Act
- Maintain compliance with the Safe Drinking Water Act
- Meet future requirements of the Safe Drinking Water Act

In SFY 2007, the ten loans that closed have the following public health benefits:

Public Health Benefits	# of Loans	Dollar Amount
Achieve compliance with the Safe Drinking Water Act	1	\$ 297,000
Maintain compliance with the Safe Drinking Water Act	9	\$ 61,181,000
Meet future requirements of the Safe Drinking Water Act	0	\$ 0

(ST3) Implement the DWSRF Loan Program Priority Scoring and Ranking System, revised June 29, 2006.

The revised Scoring and Ranking System was implemented at the start of the 2007 SFY. The average score of the seven projects that closed loans in the first six months of SFY 2007 is 18; the average rank is 9.

Project	Rank	Score (100 max.)
Marshall	1	44
Linden 01	5	17
Linden 02	5	17
Huntertown	8	15
Middlebury	11	15
Patriot	12	14
Fort Wayne	14	13
Brookston	15	16
Chalmers	4	17
Greensburg	13	14
AVERAGE	9	18

(ST4) Conduct at least 12 DWSRF and CWSRF financial site visits to assess Participants repayment of loans and work with Participants as needed.

In SFY 2007, SRF conducted 2 DWSRF and 10 WWSRF financial site visits for SRF projects.

(ST5) Inspect at least 12 DWSRF projects in accordance with the DWSRF Loan Program's inspection procedure to document the progress of DWSRF financed projects, including the construction phase and the post-construction phase.

In SFY 2007, SRF conducted 16 inspections of DWSRF projects.

(ST6) Continue to use the DWSRF set-asides to administrate the Small System Technical Assistance Fund Program and the Arsenic Grant Remediation Program.

In SFY 2007, the following communities have received either SSTAF or Arsenic grants:

Program	# of Grants	Dollar Amount
SSTAF	6	\$ 141,675
Arsenic (set-asides only)	7	\$ 29,561
Arsenic (supplemental only)	10	\$ 366,836
Arsenic Total (set-aside +sup)	8	\$ 396,396

(ST7) Monitor set-aside balances and expiration dates of those Capitalization Grants administered by the Indiana Department of Environmental Management (the Department) and compare to EPA set-aside balances quarterly. Continue work on transferring unused balances to the DWSRF, thereby increasing our set-aside spending rate.

Set-aside balances were reconciled on September 30, 2006, December 31, 2006, March 31, 2007, and June 30, 2007. In SFY 2007, EPA has approved the transfer of approximately \$ 1,476,443 of deobligated or unused set-aside funds to the loan pool for immediate use.

(ST8) Provide at least 15% of all available DWSRF to systems serving fewer than 10,000 persons.

In SFY 2007, SRF closed ten loans that served the following populations:

Project	Population served	Amount of loan
Marshall	378	\$ 297,000
Chalmers*	513	\$ 310,000
Linden 01	750	\$ 775,000
Linden 02	750	\$ 3,280,000
Brookston*	1,707	\$1,372,000
Huntertown	2,281	\$ 4,500,000
Middlebury	2,956	\$ 5,935,000
Patriot	6,201	\$ 5,989,000
Greensburg	11,500	\$7,120,000
Fort Wayne*	250,000	\$ 31,900,000
TOTAL	277,036	\$ 61,478,000
% serving <10,000	5%	37%
% serving <10,000 (w/o Pooled Projects*)	61%	81%

(ST9) Institute the use of project work plans to improve DWSRF Program workflow and increase the efficiency of our staff's time.

Work plans are being used on all SRF projects. On average, in calendar year 2006:

- **Project Planning meeting follow up letters were sent within 2 days after the meeting;**
- **Content reviews were conducted and letters sent within 5 days of receiving Preliminary Engineering Report (PER);**
- **Reviews were conducted and comment letters were sent within 25 days of receiving a response to content review letters;**
- **Finding of No Significant Impact (FNSI) notices were issued within 80 days of receiving a response to the comment letters; and,**
- **PER's were approved within 36 days of issuing a FNSI (including the 30 day public notice period).**

B. Long-Term Goals and Objectives

During SFY 2007, the State continues work to achieve the following long-term goals:

(LT1) Provide financial assistance to current and future Participants, by providing low-cost financing commensurate with prudent fiscal and credit standards.

The SRF Loan Program continues to provide low-cost financing to Participants.

(LT2) Maintain the long-term financial integrity of the DWSRF by judiciously managing its assets in order to realize a rate of return that will sustain the DWSRF in perpetuity.

The SRF Loan Program continues to manage the DWSRF in sustainable manner.

(LT3) Monitor all outstanding loans and the financial capability of Participants to ensure the DWSRF Loan Program continues to avoid a loan default.

In SFY 2007, the SRF Loan Program (in conjunction with the Bank of New York) developed an in-house monitoring system to help track payments on Participant's loans. As a process, the SRF Loan Program will monitor the payments and if Participants are late, a call will be made to the Participant, requesting payment to be sent in an agreed upon timeframe, if payment is not received, SRF Loan Program General Counsel will issue a delinquency letter.

Also new in SFY 2007, all new loans will have a Paying Agent Agreement which will help with financial tracking and aid Participants to make timely payments.

(LT4) Continue to leverage EPA Capitalization Grants to generate loans that exceed two-times the awarded grant amounts.

The SRF Loan Program continues to meet this goal.

(LT5) Continue to monitor each Participant's draw of funds to assure loans are being drawn within two years. Assure that un-drawn funds are returned to the loan pool and made available to other Participants.

The SRF Loan Program continues to monitor draws and ensure unspent funds are used most appropriately.

(LT6) Continue to assure that all reporting/filing deadlines are met and that EPA funds are accessed within one week of being made available to the State.

The SRF Loan Program submits reports in a timely manner and accesses funds as soon as possible.

(LT7) Continue publication of a periodic SRF newsletter.

The SRF Loan Program distributed newsletters in January, March, and June of SFY 2007.

(LT8) Continue working with the other State and Federal drinking water infrastructure financing agencies to coordinate efficient and effective financing of drinking water projects.

In SFY 2007, the DWSRF Loan Program co-funded four projects with the following amounts.

Total Project Cost	\$ 6,219,590
SRF Financed Portion	\$ 2,754,000
Other Sources	\$ 3,465,590

(LT9) Develop a single, accessible, and comprehensive database for staff to reference all information related to each SRF project.

The SRF Loan Program undertook the adoption of two software programs in SFY 2007. The SRF Loan Program will utilize TEMPO, an agency wide project tracking database to improve data accessibility and workflow efficiency. In SFY 2007, SRF staff trained on the preliminary TEMPO design and provided information to the software designers to enable tailoring of the software to fit our needs. In addition to TEMPO, the SRF Financial Manager pursued the development of a financial database to enhance financial tracking and also improve workflow efficiency. In SFY 2007, the SRF Loan Program retained the software contractor who began the development of loan tracking software to meet the needs of the Program.

Exhibit B
Cumulative History of Federal Capitalization Grants

\$25,371,806	FFY 1997 Federal Capitalization Grant
\$8,687,500	FFY 1998 Federal Capitalization Grant
\$9,105,300	FFY 1999 Federal Capitalization Grant
\$8,989,850	FFY 2000 Federal Capitalization Grant
\$9,159,460	FFY 2001 Federal Capitalization Grant
\$8,955,100	FFY 2002 Federal Capitalization Grant
\$9,398,200	FFY 2003 Federal Capitalization Grant
\$9,749,300	FFY 2004 Federal Capitalization Grant
\$11,201,850	FFY 2005 Federal Capitalization Grant
\$12,166,734	FFY 2006 Federal Capitalization Grant
\$11,484,000	FFY 2007 Federal Capitalization Grant
\$124,269,100	TOTAL

Exhibit C

Cumulative History of State Match

Approximately \$2.5 million of additional State match was deposited in the DWSRF Loan Program in SFY 2007. To date, the DWSRF State match has aggregated in excess of 20% of the awarded \$124,269,100 capitalization grants through June 30, 2007, which results from the following cumulative history of State matches to the DWSRF Loan Program:

\$6,860,000	State Revolving Fund Program Bond, Subordinate Series 1, net proceeds representing a State Match (September 1999)*
5,640,000	State Revolving Fund Program Bond, Subordinate Series 2, net proceeds representing a State Match (December 2001)*
3,823,000	Series 2001A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2001 & July 2002)
1,949,860	Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2004)
2,000,000	Series 2004B State Revolving Fund Program Bond net proceeds representing a State Match allocation (February 2005)
2,100,000	Series 2006A State Revolving Fund Program Bond net proceeds representing a State Match allocation (April 2006)
2,493,109	Series 2006B State Revolving Fund Program Bond net proceeds representing a State Match allocation (December 2006)
<hr/> \$24,865,969	TOTAL

* Source restructured in SFY 2002 vis-à-vis Series 2001A State Revolving Fund Program Bond net proceeds representing a State Match allocation (November 2001)

As a result of the foregoing, the State has deposited State match in excess of that required based on grants awarded as of the end of SFY 2007 by \$12,149 (also known as over-match), which are banked toward future capitalization grants that are expected to be awarded in SFY 2008. This over-match is intended to permit, and will allow, the State to immediately convert its next capitalization grant (expected to be awarded in early FFY 2008) to cash (and deposit it in the DWSRF) based upon incurred costs, paid by the close of SFY 2007 and incurred costs during SFY 2008, and banked as a result of their not having yet been used to convert any capitalization grant to cash.

State Match has been provided from State Revolving Fund Program Bonds, the net proceeds of which are allocated between 4 distinct purposes – (1) DWSRF’s State match; (2) DWSRF’s leveraged loans; (3) WWSRF’s State match; and (4) WWSRF’s leveraged loans. These bonds are repaid semi-annually and at the time of each payment the Authority tracks, allocates and records their payment *first* between WWSRF and DWSRF purposes (with the percentage paid from DWSRF being equal to the proportion of the net bond proceeds originally deposited in DWSRF from those bonds as compared to their total net bond proceeds) and *second* between State match and leveraged loans purposes (with the payment allocated as a State match repayment computed and tracked to be no more than the amount of the total DWSRF earnings applied on each payment date toward that bond payment). Set forth in the attached Exhibit C-1 is the principal amount of the State Revolving Fund Program Bonds allocated to State match purposes for the DWSRF and the principal amount repaid as of the end SFY 2007.

The Authority annually designates whether principal maturities of the State Revolving Fund Program Bonds retired in a State Fiscal Year relate to State match or leveraged bonds. Generally, it anticipates retiring State match related bonds first leaving primarily program bonds allocated to the leveraged loans purposes outstanding. Once all State Revolving Fund Program Bonds allocated to the DWSRF State match purposes are retired (and/or the number of series with outstanding State match bonds are reduced), this policy will simplify the tracking of funds, reporting, bond disclosure, and allocation of semi-annual debt service.

Exhibit C-1

DRINKING WATER

Revenue	Original Par Amount of Bonds Designated	Par Amount retired during SFY Ending June 30					All Prior SFYs	Remaining Par Amount of Bonds Designated as State Match
		2007	2006	2005	2004	2003		
Bonds	as State Match							
2001A	\$ 15,680,000	1,431,137	1,189,396	530,310	131,828	-	-	\$ 12,397,329
2004B	3,625,835	567,361	545,414	586,986	-	-	-	1,926,074
2006A	1,988,671	455,000	-	-	-	-	-	1,533,671
2006B	2,359,076	-	-	-	-	-	-	2,359,076
Total	\$23,653,582	\$2,453,498	\$1,734,810	\$1,117,296	\$131,828	\$0	\$0	\$ 18,216,150

Exhibit D to the Annual Report for SFY¹ 2007
Expeditious and Timely Use of Funds in the Indiana Finance Authority's SRF Accounts

This Exhibit identifies the intended uses of the funds held in various accounts of the DWSRF, and how those uses support the goals of the DWSRF. This Exhibit also demonstrates how the Authority meets the requirements of 40 CFR 35.3550(1) by using all of the funds in the DWSRF in an expeditious and timely manner.

Sources, Uses and Available Balances in SRF Accounts

The following accounts have been created and exist under the Authority's Drinking Water Trust Indenture and comprise its DWSRF. Set forth on the attached Schedule 1 (the "Use Schedule") is detail on what funds are held in the DWSRF and how they were expeditiously and timely used in SFY 2007 and will continue to be in perpetuity.

Drinking Water Purchase Account.

Sources of Funds: Funds held in this account² come from proceeds of Program Bonds³ issued by the Authority. The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed as of the end of the SFY 2007 as well as loans anticipated to be closed in SFY 2008 and after.

Uses of Funds: These funds are used to make loans for qualified Proposed Projects as permitted by 40 CFR 35.3525(a). This use directly furthers the primary purpose of the DWSRF Program by financing qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: As of July 1, 2007, the aggregate amount of closed and committed loans were approximately equal to the balance in this account. As additional loans are closed in SFY 2008, such committed amount will exceed amount available in this account ("Excess Commitments"). The aggregate amount held in this account as of July 1, 2007 is shown in the Use Schedule. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes except to finance closed and committed loans related to qualified Proposed Projects.

¹ Refers to the State Fiscal Year ending on June 30 of the year listed.

² Pursuant to SRF Indenture modification, the former State Match Loan Account was consolidated into this Account effective May 30, 2007.

³ These bonds are revenue bonds within the meaning of 40 CFR 35.3525(e), the net proceeds of which were deposited in the DWSRF. To date, the Authority (or its processor issuer) has issued multiple series of bonds including several refunding series (the "Program Bonds"), a portion of which are issued for the DWSRF. An allocated portion of the Program Bonds were deposited in the Purchase Account (with such bonds being referred to as the "Guarantee Revenue Bonds" in this Report) to make loans from the DWSRF and a further allocated portion of the Program Bonds were deposited in the Purchase Account (or the former State Match Loan Account) as state match (with such bonds being referred to as the "State Match Revenue Bonds" in this Report) to make loans or for other permitted purposes; their proceeds (together with other match sources) have matched all capitalization grants awarded to date as well as a portion of the not-yet-available FFY 2008 (FFY refers to the Federal Fiscal Year ending September 30 of the year listed) grant by reason of over-match.

Drinking Water Participant Loan Principal Account.

Sources of Funds: Funds held in this account come from principal payments on loans made from the Purchase Account and the former State Match Loan Account.

Uses of Funds: These funds are used to make payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

Drinking Water Participant Loan Interest Account.

Sources of Funds: Funds held in this account come from interest payments on loans made from the Purchase Account and the former State Match Loan Account.

Uses of Funds: These funds are used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use indirectly furthers the primary purpose of the SRF by making loan proceeds available to finance qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds. Accordingly, none of the funds presently on deposit in this account are available for other SRF purposes.

DRINKING WATER RESERVE⁴ contains the following accounts:

Drinking Water Reserve Earnings Account.

Sources of Funds: Funds held in this account come from interest payments on loans made from the Purchase Account and the State Match Loan Account together with other earnings on invested Reserve accounts.

⁴ Pursuant to SRF Indenture modification, effective May 30, 2007, the following Reserve accounts are pledged to particular series of Program Bonds by means of subaccounts therein. Such pledged accounts serving as the Reserve for only one Series of Program Bonds (a "Series Reserve") and are held at a fixed amount (a "Series Reserve Requirement") subject to annual reductions as principal on such Series of Program Bonds are repaid as required by the SRF indenture. While not labeled under this Reserve group of accounts, amount held in Equity serve as security for the payment of Program Bonds, and thus, are part of the "reserve" for the purposes of this Report and the federal Safe Drinking Water Act, as amended

Uses of Funds: These funds are *first* used to make payments on the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively, and *secondly* transferred to the Reserve Deficiency Account, as described below.

Available Balance: Approximately annually, this account is fully depleted to make payments on Program Bonds, with any excess available balances to be transferred to the Reserve Deficiency Account. Accordingly, none of the funds presently on deposit⁵ in this account are available for other SRF purposes.

Drinking Water Reserve Grant Account.

Sources of Funds: Funds held in this account⁶ come from Federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Equity Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.⁷

Uses of Funds: These funds are used (i) as security⁸ for outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and (ii) as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively. This use both directly and indirectly furthers the primary purpose of the DWSRF Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: The aggregate amount held in this account (as of July 1, 2007 and as anticipated in SFY 2008) is shown in the Use Schedule.⁹ In furtherance of these purposes, the funds in this account are invested with certain short-term investments and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's

⁵ And before any transfers to the WWSRF as discussed elsewhere in this Exhibit.

⁶ Pursuant to SRF Indenture modification, the former State Match Account was consolidated into this Account effective May 30, 2007.

⁷ State Match in this account came from State Match Revenue Bonds, and is from principal on loan repayments funded from such proceeds. As of July 1, 2007, such amounts related to State Match on deposit in this account have not been applied to Guarantee Revenue Bonds but may be so applied to make any regularly scheduled payments on the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e) and the Authority's Operating Agreement with EPA.

⁸ Pursuant to the financing indentures related to the cross-collateralized outstanding Program Bonds, the Authority is presently required to maintain reserves of at least \$681 million, which is to be held in the Reserve accounts and is not anticipated to be used to make loans to Participants. A portion of the reserves have been allocated to the DWSRF for purpose of this IUP (as shown in the amount set out in the Use Schedule). This is a minimum invested funds requirement. However, the Authority views invested amounts in excess of the foregoing minimum requirement as security and as a source of payment for the outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement will increase as additional Program Bonds are issued in SFY 2008 and beyond. Such excess purposes are served by the Equity accounts to the extent that they are not anticipated to be used to make loans to Participants.

⁹ And before any transfers to the WWSRF as discussed elsewhere in this Exhibit.

option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

Drinking Water Reserve Deficiency Account.

Sources of Funds: Funds held in this account, if any, will come from other Reserve accounts discussed above when the amounts held in the group of accounts serving as the Reserve any Series of Program Bonds (a "Series Reserve") exceeds its Series Reserve Requirement.

Uses of Funds: These funds are used to fund each Series Reserve by immediately transferring them as necessary (the *first* possible use) to each Series Reserve that is below its Series Reserve Requirement on each February 1 and August 1 and secondly (if not required for such *first* use) shall be transferred to an Equity account (the *secondary* use; which is expected to occur). Any such transfer is either made to a Grant Account or Earnings Account depending on the source of the funds transferred to the Reserve Deficiency Account.

Available Balance: No amounts were held in this account as of July 1, 2007 nor are any so anticipated in SFY 2008.

DRINKING WATER EQUITY¹⁰ contains the following accounts:

Drinking Water Equity Grant Account.

Sources of Funds: Funds held in this account come from Federal capitalization grants drawn when funds are loaned, up to the amount therein (and in the Reserve Grant Account) that equals the perpetuity amount, and any amounts in excess thereof come from State Match.

Uses of Funds: These funds are used (i) as security¹¹ and as a source of payment for the outstanding Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e), (ii) to fund any transfers to the Authority's WWSRF as permitted by law including Section 302 of the Safe Drinking Water Act, and (iii) to fund that portion of any loans closed but not presently on deposit in the Purchase Account¹² in the event

¹⁰ While funds held in these Equity accounts are not pledged to the payment of Program Bonds, the SRF Program Representative may, but is not required to, direct that they be used to pay Program Bonds. Further, the Authority would expect such to occur if it was necessary to pay such bonds and, thus, while not labeled under as Reserve in this Report, the DWSRF treats it as part of the "reserve" for the purposes of this Report and the federal Safe Drinking Water Act, as amended.

¹¹ Pursuant to the financing indentures, the Authority may use these funds if the Reserve Grant Account were insufficient to pay outstanding Program Bonds. Further, the Authority expects that the foregoing minimum requirement of Reserve accounts will increase as additional Program Bonds are issued in SFY 2008 and will result in a transfer of any uncommitted amounts in the Equity Grant Account to the Reserve Grant Account inclusive of any Capitalization Grants drawn into the SRF after July 1, 2007.

¹² In addition to meeting any Excess Commitments as of July 1, 2007, additional Excess Commitments will occur before additional Guarantee Revenue Bonds are issued. This will result from closing new loans for qualified Proposed Projects with (a) approved preliminary engineering reports (PERs) as of July 1, 2007, (b) PERs submitted and under

additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the DWSRF Program by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: The aggregate amount held in this account (as of July 1, 2007 and as anticipated in SFY 2008) is shown in the Use Schedule.¹³ In furtherance of these purposes, the funds in this account are invested with certain short-term investments and long-term high-quality investment contracts (the "Investment Agreements"). The Investment Agreements (a) pay interest semi-annually serving as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds, (b) mature and may be terminated at the Authority's option as set forth in the attached Schedule 2, and (c) are available in full (as security) at any time if needed to pay the outstanding Guarantee Revenue Bonds.

Drinking Water Equity Earnings Account.

Sources of Funds: Funds held in this account come from (a) transfers from the Reserve Earnings Account and the Participant Loan Interest Account undertaken approximately annually or at the time of an issuance of additional Program Bonds and (b) earnings on amounts invested in the Equity accounts.

Uses of Funds: These funds are used (i) as security and as a source of payment for the outstanding Guarantee Revenue Bonds and outstanding State Match Revenue Bonds as permitted by 40 CFR 35.3525(e) and 40 CFR 35.3550(g)(3), respectively, like the Equity Grant Account and (ii) to fund that portion of any loans closed but not on deposit in the Purchase Account in the event additional leveraged Guarantee Revenue Bonds could not be issued for any reason to meet such commitments. This use both directly and indirectly furthers the primary purpose of the SRF by making financing for qualified Proposed Projects that facilitate compliance with the Safe Drinking Water Act and protect public health.

Available Balance: The aggregate amount held in this account as of July 1, 2007 is shown in the Use Schedule.¹⁴

ADDITIONAL INFORMATION CONCERNING EXPECTED USES OF SRF FUNDS

Use of Available Balances to Meet Closed Loan Commitments. Under its existing practices, the Authority closes DWSRF Program loans with Participants without the necessity of having available balances in its Purchase Account to fully fund those loan commitments on the date a DWSRF Program loan is closed. As of July 1, 2007, there were no Excess Commitments. By closing new loans for qualified Proposed Projects with (a) approved PERs as of July 1, 2007, (b) PERs submitted and under review by the DWSRF as of July 1, 2007 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2008), the aggregate amount of Excess Commitments would become as shown in the Use Schedule.

review by the DWSRF as of July 1, 2007 and (c) additional PERs to be submitted (including as set in the new PPL in SFY 2008), each as detailed in the Use Schedule.

¹³ And before any transfers to the WWSRF as discussed elsewhere in this Exhibit.

¹⁴ And before any transfers to the WWSRF as discussed elsewhere in this Exhibit.

The Authority expects to cause additional Program Bonds to be issued at times and in amounts sufficient to meet the funding requirements for loans presently closed and those anticipated to be closed in SFY 2008. Additionally, certain amounts held in the Equity Grant Account and Equity Earnings Account are available and would be used to meet a portion of the projected funding requirements for loans presently closed (and those anticipated to be closed in SFY 2008) in the event additional Guarantee Revenue Bonds could not to be issued.

Use of Available Balances as a Reserve and Source of Payment for Guarantee Revenue Bonds.

Amounts held in the Reserve Deficiency Account, Equity Grant Account, Reserve Grant Account Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for Guarantee Revenue Bonds as permitted by 40 CFR 35.3525(e). In addition to this use, a portion of these funds are also held to meet (a) Excess Commitments in SFY 2008 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the WWSRF as permitted by law.

Use of Available Balances as a Source of Payment for State Match Revenue Bonds. All SRF earnings including amounts held in the Reserve Earnings Account and Equity Earnings Account secure, and are a source of payment, for State Match Revenue Bonds as permitted by 40 CFR 35.3550(g)(3). In addition to this use, a portion of these funds are held to meet (a) Excess Commitments in SFY 2008 in the event additional Guarantee Revenue Bonds could not to be issued and (b) any transfers to the WWSRF as permitted by law.

Use of Available Balances to Possibly Transfer Funds to the Wastewater SRF. During SFY 2008, the Authority expects to continuously refine its analysis of the ability of the resources in its WWSRF to meet demand for its loans. Present analysis evidences that after a transfer as of July 1, 2007 from the WWSRF to the DWSRF, requested Drinking Water loans in SFY 2008 will not be met as both the DWSRF and WWSRF Programs would be at their leveraged loan capacity.

As of July 1, 2007, about \$23.6 million has been transferred to DWSRF. As of July 1, 2007, the cumulative transfer amount available for additional transfers from CWSRF to the DWSRF could result in up to \$40.45 million of allowable transfers including 33% of the FFY 2007 grant. The full amount of any such potential transfers is banked.

Further, transfers can be made from DWSRF to the WWSRF up to the cumulative amount made from WWSRF to DWSRF to date, together with an amount equal to 33 percent of aggregate Drinking Water Capitalization Grants awarded. The full amount of any such potential transfers is banked.

Since the inception of the DWSRF, the Authority (or its predecessor) has banked transfers up to maximum permitted limit and continues to do so; funds held in the Equity Grant Account might be used for this purpose. Such transfer may be effectuated by a transfer of an invested balance from (a) one or more of the Authority's Investment Agreements or (b) other investments. These invested funds would then be used to support the issuance of Guarantee Revenue Bonds, the proceeds of which would be used to make Program loans. Any such determination would be based on whether the DWSRF or WWSRF program is more in need of funds (when considering their respective priorities) than the other. While a transfer from DWSRF to the WWSRF is not expected, it is also banked to reserve the Authority's discretion.

Schedule 1
to Exhibit D for the DW Annual Report (SFY 2007)

	Account Balances* as of: 30-Jun-2007 (Actual)	Future Deposits in SFY
<u>A. Funds Committed to Closed (Undrawn Loans) by DWSRF</u>		
Purchase Account	\$ 17,700,000	\$ -
	<u>\$ 17,700,000</u>	<u>\$ -</u>
<u>B. Other Funds Held in DWSRF</u>		
Reserve Grant Account	\$ 111,500,000	\$ -
Reserve Earnings Account	3,700,000	-
Reserve Deficiency Account	-	
Equity Grant Account	24,200,000	\$ 21,400,000
Equity Earnings Account	8,500,000	-
	<u>\$ 147,900,000</u>	<u>\$ 21,400,000</u>
Total Available Funds (A. and B. above)	<u><u>\$ 165,600,000</u></u>	<u><u>\$ 21,400,000</u></u>

Proof of Timely & Expedious Use of Above Funds Held in DWSRF*

Closed Loan (Undrawn loan amounts covered by on-hand Purchase A/C Funds)	\$ 17,700,000
Closed Loan Excess Commitments (after Application of above Purchase A/C **)	-
Closed Loan to be funded directly from Equity (undrawn portion of loan)	<u>4,500,000</u>
PERs In-house (approved & under-review) Awaiting Loan Closing	<u>48,190,000</u>
Other Projects on new SFY's PPL, Requesting Loan Funding	<u>51,405,000</u>
1. Use: to cover Loan Demand***	<u>121,795,000</u>
2. Use: to cover Series Reserve Requirement	<u>116,000,000</u>
Possible Uses of Funds (1 & 2 above without considering other secondary purposes for holding them in the DWSRF) # are as follows:	<u><u>\$ 237,795,000</u></u>
Uses of Funds (1 & 2 above):	\$ 237,795,000
Less: Total Available Funds (A. and B. above)	187,000,000
Amount by which "Possible Uses of Funds" EXCEED "Total Available Funds"	<u><u>\$ 50,795,000</u></u>

Notes:

- * Amounts are approximate & rounded to nearest \$100,000
- ** This amount is a net unfunded amount of closed loans after application of the June 30th on-hand balance.
- *** While use will likely be met with future Program Bonds, possible that on-hand funds could be used. When covered by issuance of Program Bonds used to make subsidized loan, a reserve of 40% to 50% is funded from Equity and additional Program Bonds are used to make pooled loan at a market rate. Such Program Bonds would not be sufficient to meet all needs.

SCHEDULE D-2
SRF INVESTMENT AGREEMENTS

Funds held in the Reserve Grant Account and certain other accounts are invested in the following Investment Agreements which mature, and may be terminated at the Authority's option only, as follows:

Investment Agreement with:	Final Maturity Date ¹⁵	Optional Termination Date ¹⁶	Scheduled Repayments of Invested Amounts ¹⁷
AIG Matched Funding Corp., Dated, September 29, 1998	2/1/20	2/1/10	\$1 to \$6 million
Citigroup Global Company Inc., Dated, February 13, 2006	8/1/16	Any time	\$1 to \$5 million
Trinity Plus Funding Company, LLC, Dated January 9, 2001	8/1/23	8/1/08	\$0.1 to \$18 million
AIG Matched Funding Corp., Dated, November 14, 2001	2/1/23	N/A	\$1 to \$10 million
AIG Matched Funding Corp., Dated, December 27, 2002	2/1/24	N/A	\$1 to \$2 million
Trinity Plus Funding Company, LLC, Dated March 21, 2006	2/1/29	N/A	\$3 to \$10 million
FSA Capital Management Services LLC, Dated June 19, 2007	2/1/27	N/A	\$-0- to \$0.5 million

The Authority has structured these Investment Agreements in a manner to assure as great as flexibility as practical to serve the variety of needs required by the SRF. The long-term nature of these investments assures long-term access to quality investment sources and, thereby, balances revenue certainty against known debt obligations associated with Program Bonds. This fosters the ability to issue additional Program Bonds to fund a prudent, maximum level of leveraged loans. Further, repayment features are consistent with the reserve purposes associated with most of these invested funds. These optional termination dates and scheduled repayment features associated with the Investment Agreements, in total, assure access to invested balances at reasonable intervals and are expected to facilitate future leveraged bond issues. However, it also to be understood that this restricts the SRF Program's ability to make use of these invested sums for other purpose (including certain of those uses recited elsewhere in this Exhibit) without negotiating different termination provisions which could result in a charged losses upon any such alternate termination depending upon market conditions and other factors.

¹⁵ If not repaid sooner, all invested sums are required to be repaid to the Authority by this date.

¹⁶ On or after this date, the Authority may terminate the investment at its option and all invested sums will then be required to be repaid to the Authority without any premium (or other market to market payment).

¹⁷ Each February 1 (except for the 2000 & the first 2001 Investment Agreements, which is each August 1), commencing in 2008 (except for the first 2001 Investment Agreements, which is 2019), a portion of the invested sums is required to repaid annually to the Authority. These annual amounts are set out in a schedule to each agreement and range within the amounts shown in this column.

Exhibit E
SFY 2007 DWSRF Loan Program Quarterly Interest Rates

State Fiscal Year (SFY) By Quarter (Qtr)	User Rates (Over \$45)	User Rates (\$25 to \$45)	User Rates (Under \$25)
Tier III (MHI: under \$33,669)			
1 st Qtr SFY 2007	2.70%	2.95%	3.45%
2 nd Qtr SFY 2007	2.40%	2.65%	3.15%
3 rd Qtr SFY 2007	2.26%	2.51%	3.01%
4 th Qtr SFY 2007	2.26%	2.51%	3.01%
Tier II (MHI: \$33,670 to \$41,566)			
1 st Qtr SFY 2007	2.95%	3.20%	3.70%
2 nd Qtr SFY 2007	2.65%	2.90%	3.40%
3 rd Qtr SFY 2007	2.51%	2.76%	3.26%
4 th Qtr SFY 2007	2.51%	2.76%	3.26%
Tier I (MHI: over \$41,567)			
1 st Qtr SFY 2007	3.20%	3.45%	3.95%
2 nd Qtr SFY 2007	2.90%	3.15%	3.65%
3 rd Qtr SFY 2007	2.76%	3.01%	3.51%
4 th Qtr SFY 2007	2.76%	3.01%	3.51%

Up to an additional .50% reduction is possible if a non-point source project is financed along with a point source project.
 An additional .25% increase is also possible if a loan is determined to have a long weighted average loan life.
 The SRF Pooled Program Participants receive the "AAA" interest rate that is available to the SRF Program at the time of their loan closing.

Exhibit F
Estimated Interest Rate Savings

Applicant Name	Closing Date	Loan Amount	Estimated Open Market Interest Rate	Estimated Open Market P & I	SRF Interest Rate	SRF P & I	SRF Savings
SFY 2007							
Patriot	08/27/06	\$ 5,989,000	5.50%	\$ 10,023,110	3.20%	\$ 8,200,704	\$ 1,822,406
Middlebury	08/27/06	\$5,935,000	4.50%	\$ 9,125,198	3.95%	\$ 8,695,527	\$ 429,671
Linden	10/30/06	\$775,000	5.25%	\$ 1,270,260	2.90%	\$ 1,032,235	\$ 238,025
Fort Wayne	12/30/06	\$31,900,000	5.00%	\$ 51,194,771	3.95%	\$ 46,737,544	\$ 4,457,227
Huntertown	12/13/06	\$4,500,000	5.25%	\$ 7,375,705	3.15%	\$ 6,133,619	\$ 1,242,087
Linden	12/29/06	\$3,280,000	5.25%	\$ 5,376,070	2.90%	\$ 4,368,685	\$ 1,007,385
Marshall	12/29/06	\$297,000	5.25%	\$ 486,797	2.40%	\$ 377,444	\$ 109,353
Brookston	05/30/07	\$1,372,000	5.00%	\$ 2,201,857	4.39%	\$ 2,089,423	\$ 112,434
Chalmers	05/30/07	\$310,000	5.00%	\$ 497,504	4.39%	\$ 472,100	\$ 25,404
Greensburg	05/30/07	\$7,120,000	5.00%	\$ 11,426,544	0.00%	\$ 7,120,000	\$ 4,306,544
Total DW		\$61,478,000				Total DW Savings	\$ 13,750,536

Exhibit G
Indiana SRF Drinking Water Loan Program
Summary of Closed Loans for SFY 2007

Closing Date	Participant	Interest Rate	County	Population	Loan Amount
08/04/06	Patriot, Town of	3.20%	Switzerland	6,201	\$ 5,989,000
08/27/06	Middlebury, Town of	3.95%	Elkhart	2,956	5,935,000
10/30/06	Linden, Town of	2.90%	Montgomery	750	775,000
12/13/06	Fort Wayne, City of	3.95%	Allen	250,000	31,900,000
12/28/06	Huntertown, Town of	3.15%	Allen	2,281	4,500,000
12/29/06	Linden, Town of	2.90%	Montgomery	750	3,280,000
12/29/06	Marshall, Town of	2.65%	Parke	378	297,000
05/30/07	Brookston, Town of	4.39%	White	1,707	1,372,000
05/30/07	Chalmers, Town of	4.39%	White	513	310,000
05/30/07	Greensburg, City of	0.00%	Decatur	11,500	7,120,000
					<u>\$ 61,478,000</u>



**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

COMBINED FINANCIAL STATEMENTS

June 30, 2007 and 2006

KATZ, SAPPER & MILLER
Certified Public Accountants

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
Indianapolis, Indiana**

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INDEPENDENT AUDITORS' REPORT

Members of the State Revolving Fund Loan Programs
(Enterprise Fund of the Indiana Finance Authority)
Indianapolis, Indiana

We have audited the accompanying combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the years ended June 30, 2007 and 2006, presented on pages 8-31. These combined financial statements are the responsibility of the Programs' management. Our responsibility is to express an opinion on these combined financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

As discussed in Note 1, the combined financial statements present only the State Revolving Fund Loan Programs, an enterprise fund, and do not purport to, and do not, present fairly the financial position of the Indiana Finance Authority as of June 30, 2007 and 2006, and the changes in its financial position or its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of the State Revolving Fund Loan Programs at June 30, 2007 and 2006, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States.

The Management's Discussion and Analysis presented on pages 3-7 is not a required part of the basic combined financial statements, but is supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 25, 2007, on our consideration of the State Revolving Fund Loan Programs' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audits.

Katz, Sagan & Miller, LLP

Indianapolis, Indiana
September 25, 2007

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2007

As management of the State Revolving Fund Loan Programs (the SRF Programs), we offer readers of the SRF Programs' combined financial statements this narrative overview of Management's Discussion and Analysis (MD&A) of the financial activities of the SRF Programs for the fiscal year ended June 30, 2007. All amounts, unless otherwise indicated, are expressed in thousands of dollars and are approximate.

Financial Highlights: The SRF Programs' total net assets increased by \$60.1 million during the current fiscal year from \$762.2 million to \$822.3 million. Of this amount, \$37.0 million consists of capital contributions (grants) from EPA. All of these net assets are restricted for water pollution and drinking water projects and related program purposes.

The SRF Programs' debt increased by \$161.4 million during the current fiscal year. The net increase in debt is the result of proceeds of \$214.2 million related to the issuance of new Series 2006B and 2007A bonds during the current fiscal year. New debt was offset, in part, by scheduled principal payments on the SRF programs outstanding debt totaling \$60.7 million.

The SRF Programs disbursed \$355.5 million to participants during the current year to fund project expenses. Loans receivable can be found in Note 3 to the combined financial statements on page 17 of this report.

BASIC COMBINED FINANCIAL STATEMENTS

This MD&A is intended to serve as an introduction to the SRF Programs' basic combined financial statements (Report). The accompanying Report only provides information on the financial activities associated with the SRF Programs which are an enterprise fund of the Indiana Finance Authority, where financial transactions are reported as business-type activities. The basic combined financial statements do not represent a comprehensive annual financial report of the Indiana Finance Authority.

Enterprise funds are used to report any activities for which income fees are charged to external users for goods and services. In addition, enterprise funds must be used in situations where debt is backed solely by fees and charges. An enterprise fund is accounted for in a manner similar to a commercial enterprise on the accrual basis of accounting.

The SRF Programs' basic combined financial statements include statements of net assets, statements of revenues, expenses and changes in net assets, statements of cash flows, and the notes to the financial statements. These combined financial statements can be found on pages 8-10 of this report and are summarized below:

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2007

- The *combined statements of net assets* present information on all of the SRF Programs' assets and liabilities, with the difference between the two reported as net assets.
- The *combined statements of revenues, expenses and changes in net assets* present information showing how the SRF Programs' net assets changed during each year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows.
- In contrast, the *combined statements of cash flows* are concerned solely with flows of cash and cash equivalents. Transactions are recorded when cash is received or exchanged, without concern of when the underlying event causing the transactions occurred.

The Report also contains other supplementary information in addition to the basic combined financial statements themselves.

The notes to the combined financial statements provide additional information that is essential to a full understanding of the data provided in the combined financial statements. The notes to the combined financial statements can be found on pages 11-31 of this report.

In addition to the basic combined financial statements and accompanying notes, this report also presents combining schedules on pages 33-35. These combining schedules are not a required part of the basic combined financial statements, but they provide detailed financial statement information for each individual program. The combining schedules are included to provide other useful information for the readers of the basic combined financial statements.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2007

FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of the government enterprise's financial position. In the case of the SRF Programs, assets exceeded liabilities by \$822.3 million at the close of the most recent fiscal year.

State Revolving Fund Loan Programs' Net Assets
(In Thousands of Dollars)

	2007	June 30, 2006	2005
Current assets	\$ 596,690	\$ 739,384	\$ 641,163
Noncurrent assets	<u>2,055,030</u>	<u>1,683,102</u>	<u>1,535,830</u>
Total Assets	<u>2,651,720</u>	<u>2,422,486</u>	<u>2,176,993</u>
Current liabilities	105,295	90,916	76,018
Long-term liabilities	<u>1,724,123</u>	<u>1,569,321</u>	<u>1,397,141</u>
Total Liabilities	<u>1,829,418</u>	<u>1,660,237</u>	<u>1,473,159</u>
Net Assets			
Restricted	<u>822,302</u>	<u>762,249</u>	<u>703,834</u>
Total Net Assets	<u>\$ 822,302</u>	<u>\$ 762,249</u>	<u>\$ 703,834</u>

Total assets have increased over the years as the SRF Programs continue to mature, manage new and existing projects, and receive new grants. As new and existing projects are undertaken and completed, additional bonds on behalf of the SRF Programs are issued in order to fund the projects. Therefore, long-term liabilities have also increased to meet the needs of participants.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2007

State Revolving Fund Loan Programs' Changes in Net Assets
(In Thousands of Dollars)

	2007	Years Ended June 30, 2006	2005
Operating Revenues			
Interest-investments	\$ 62,712	\$ 60,573	\$ 43,400
Interest-participants	43,767	36,992	32,843
Other	731	501	720
Total Operating Revenues	<u>107,210</u>	<u>98,066</u>	<u>76,963</u>
Operating Expenses			
Interest	80,814	69,301	67,536
Amortization of deferred charges	1,168	1,014	1,196
Trustee fees	320	999	1,198
Other program and administrative	1,837	1,620	2,474
Total Operating Expenses	<u>84,139</u>	<u>72,934</u>	<u>72,404</u>
Operating Income	23,071	25,132	4,559
Capital Contributions (EPA Grants)	<u>36,982</u>	<u>33,283</u>	<u>34,715</u>
Increase in Net Assets	60,053	58,415	39,274
Net Assets			
Beginning of Year	<u>762,249</u>	<u>703,834</u>	<u>664,560</u>
End of Year	<u>\$ 822,302</u>	<u>\$ 762,249</u>	<u>\$ 703,834</u>

The SRF Programs' net assets increased by \$60.1 million during the current fiscal year. Key elements of this increase are as follows:

- The SRF Programs received \$37.0 million in capital contributions (grants) from EPA to further capitalize the SRF programs.
- Interest income on investments and loans increased \$8.9 million from the prior year.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
MANAGEMENT'S DISCUSSION AND ANALYSIS ("MD&A")
June 30, 2007

DEBT ADMINISTRATION

Long-term Debt: At the end of the current fiscal year, the SRF Programs' debt, net of premium/discount and unamortized loss on refunding, was \$1.79 billion. The amount due represents bonds issued solely for the State Revolving Fund Loan Programs. By operation of law, effective May 15, 2005, the outstanding bonds of the Indiana Bond Bank related to the SRF Programs became the obligations of the Authority instead of the Indiana Bond Bank. For years ended on, or before, June 30, 2005, these obligations were previously reported as *Due to Indiana Bond Bank* liabilities of the SRF Programs. For the comparative combined financial statements for the years ended June 30, 2007 and 2006, such obligations are reported as bonds payable of the SRF Programs.

State Revolving Fund Loan Programs' Outstanding Debt
(In Thousands of Dollars)

	Years Ended June 30,		
	2007	2006	2005
Net Bond Indebtedness	\$ 1,791,021	\$ 1,629,658	\$ 1,443,836

The SRF Programs' debt increased by \$161 million during the current fiscal year. The net increase in debt is the result of proceeds of \$214 million related to the issuance of new Series 2006B and 2007A bonds during the current fiscal year. New debt was offset, in part, by scheduled principal payments on outstanding SRF program debt totaling \$61 million.

Additional information on the SRF Programs' long-term debt can be found in Notes 7 and 8 to the combined financial statements on pages 21-30 of this report.

REQUESTS OF INFORMATION

This financial report is designed to provide a general overview of the SRF Programs' finances for all those with an interest in the SRF Programs' finances. Questions concerning any of the information should be addressed to the State Revolving Fund Wastewater and Drinking Water Loan Programs, 100 N. Senate Avenue, Room 1275, IGCN - 12th Floor, Indianapolis, IN 46204.

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF NET ASSETS
June 30, 2007 and 2006**

	2007	2006
ASSETS		
Current Assets:		
Cash and equivalents	\$ 463,526,882	\$ 624,323,282
Interest receivable	30,500,812	28,868,400
Due from EPA	36,588,816	31,492,895
Loans receivable	66,073,269	54,699,467
Total Current Assets	<u>596,689,779</u>	<u>739,384,044</u>
Noncurrent Assets:		
Investments	656,309,266	569,784,824
Loans receivable	1,388,894,252	1,103,928,196
Equipment, net	11,157	-
Deferred charges, net	9,815,253	9,389,437
Total Noncurrent Assets	<u>2,055,029,928</u>	<u>1,683,102,457</u>
Total Assets	<u>2,651,719,707</u>	<u>2,422,486,501</u>
LIABILITIES		
Current Liabilities:		
Interest payable	35,592,922	30,025,939
Accounts payable	227,398	220,211
Bonds payable-current, net	69,475,000	60,670,000
Total Current Liabilities	<u>105,295,320</u>	<u>90,916,150</u>
Long-term Liabilities:		
Amount due to federal government	2,577,248	333,000
Bonds payable, net	1,721,545,562	1,568,988,127
Total Long-term Liabilities	<u>1,724,122,810</u>	<u>1,569,321,127</u>
Total Liabilities	<u>1,829,418,130</u>	<u>1,660,237,277</u>
NET ASSETS		
Restricted for water pollution and drinking water projects and other related program purposes	<u>\$ 822,301,577</u>	<u>\$ 762,249,224</u>

See accompanying notes.

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
Years Ended June 30, 2007 and 2006**

	2007	2006
OPERATING REVENUE		
Interest income-investments	\$ 62,711,670	\$ 60,572,534
Interest income-loan participants	43,767,242	36,992,165
Other	730,636	501,438
Total Operating Revenue	<u>107,209,548</u>	<u>98,066,137</u>
OPERATING EXPENSES		
Interest	80,813,864	69,300,623
Amortization of deferred charges	1,167,790	1,013,570
Trustee fees	320,600	999,452
Other program and administrative	1,837,166	1,620,527
Total Operating Expenses	<u>84,139,420</u>	<u>72,934,172</u>
OPERATING INCOME	23,070,128	25,131,965
CAPITAL CONTRIBUTIONS	<u>36,982,225</u>	<u>33,283,045</u>
INCREASE IN NET ASSETS	60,052,353	58,415,010
NET ASSETS		
Beginning of Year	<u>762,249,224</u>	<u>703,834,214</u>
End of Year	<u><u>\$ 822,301,577</u></u>	<u><u>\$ 762,249,224</u></u>

See accompanying notes.

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINED STATEMENTS OF CASH FLOWS
Years Ended June 30, 2007 and 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash payments for salaries, administrative and other expenses	\$ (1,457,943)	\$ (2,122,694)
Administration fee	38,000	27,000
Net Cash (Used) by Operating Activities	<u>(1,419,943)</u>	<u>(2,095,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Maturities of loans to participants	59,173,050	49,855,891
Issuance of loans to participants	(355,512,908)	(170,931,017)
Change in investments	(86,524,442)	(41,431,033)
Interest received on loans and investments	104,846,500	96,963,587
Purchase of capital assets	(11,157)	
Net Cash (Used) by Investing Activities	<u>(278,028,957)</u>	<u>(65,542,572)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES		
Proceeds from debt issuance	214,160,000	512,249,918
Principal payments to reduce indebtedness including refunding	(52,797,565)	(326,428,069)
Payment of debt issuance costs, net of refunding	(1,593,606)	794,313
Change in amount due to federal government	2,244,248	333,000
Interest paid on debt	(75,246,881)	(68,400,239)
Net Cash Provided by Non-Capital Financing Activities	<u>86,766,196</u>	<u>118,548,923</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES		
Capital contributions (EPA grants)	31,886,304	1,790,150
Net Cash Provided by Capital Financing Activities	<u>31,886,304</u>	<u>1,790,150</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	(160,796,400)	52,700,807
CASH AND EQUIVALENTS		
Beginning of Year	624,323,282	571,622,475
End of Year	<u>\$ 463,526,882</u>	<u>\$ 624,323,282</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES		
Operating income	\$ 23,070,128	\$ 25,131,965
Adjustments to reconcile operating income to net cash used by operating activities:		
Interest income	(106,478,912)	(97,564,699)
Interest expense	80,813,864	69,300,623
Amortization of deferred charges	1,167,790	1,013,570
Changes in assets and liabilities:		
Accounts payable	7,187	22,847
Net Cash (Used) by Operating Activities	<u>\$ (1,419,943)</u>	<u>\$ (2,095,694)</u>

See accompanying notes.

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Wastewater State Revolving Fund Loan Program (WSRF) and the Drinking Water State Revolving Fund Loan Program (DWSRF), collectively known as the State Revolving Fund Loan Programs (the SRF Programs), conform to generally accepted accounting principles as applicable to governmental units in the United States. The following is a summary of significant policies:

Reporting Entity: The accompanying combined financial statements report only on the financial activities associated with the SRF Programs, which are an enterprise fund of the Indiana Finance Authority (Authority). The combined financial statements do not represent a comprehensive annual financial report of the Authority.

Principles of Combination: The combined financial statements of the Programs include the accounts of the WSRF and the DWSRF. All significant accounts and transactions between the individual programs have been eliminated.

Basis of Presentation and Accounting: The Programs are accounted for as enterprise funds. An enterprise fund is used to account for an operation where periodic determination of revenues earned, expenses incurred, and net income on an accrual basis is appropriate (accrual method). Accordingly, the SRF Programs recognize revenues in the period earned and expenses in the period incurred. Financial transactions are reported as business-type activities.

The SRF Programs follow the accounting rules promulgated by the Governmental Accounting Standards Board (GASB). Additionally, the SRF Programs follow all Financial Accounting Standards Board (FASB) Statements and Interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins (ARB) issued on or before November 30, 1989, unless the pronouncements conflict with or contradict GASB Statements.

The Wastewater State Revolving Fund Loan Program and Drinking Water State Revolving Fund Loan Program: The federal Water Quality Act of 1987 as amended in 1996 authorized the United States Environmental Protection Agency (EPA) to award capitalization grants to states for public drinking water system programs and water pollution control revolving fund programs. Pursuant to Indiana Code 13-18-13 (WSRF Act), the State of Indiana (State) originally established a water pollution control revolving fund program to provide financial assistance, essentially to make loans, to political subdivisions for eligible projects. A variety of political subdivisions and other eligible borrowers may receive loans from the WSRF Program, including municipal sewage works, sanitary districts, regional sewer districts and conservancy districts. Pursuant to Indiana Code 13-18-21 (DWSRF Act), the State also established a public drinking water system program to provide financial assistance for eligible projects. Financial assistance includes making loans to public water systems for eligible projects, as well as providing for administrative expenses, source water assessment and technical assistance for small systems.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

By operation of law, effective May 15, 2005, all assets and liabilities of the SRF Programs (including the outstanding bonds of the Indiana Bond Bank related to the SRF Programs) became the assets and liabilities of the Indiana Finance Authority instead of the State or the Indiana Bond Bank. For years ended on, or before, June 30, 2005, these assets and liabilities of the SRF Programs were previously reported as part of the respective financial statements of the State and/or the Indiana Bond Bank. For the comparative financial statements for the years ended June 30, 2007 and 2006, such are reported as the Authority's assets and liabilities related to the SRF Programs.

The Authority has capitalized its WSRF and DWSRF Programs with payments made by EPA under capitalization grants and with required state matching funds. Payments under, and the use of capitalization grants, are subject to federal law and regulated by the federal government, acting through the EPA.

Under the WSRF and DWSRF Acts, the Authority has responsibility for the administration and management of the WSRF and DWSRF Programs. The Authority has entered into Trust Indentures with The Bank of New York Trust Company, N.A., successor to J.P. Morgan Trust Company, N.A., to establish a series of separate accounts to hold the funds of the SRF Programs. The indentures create state revolving funds (the Funds) and govern the use of certain bond proceeds and EPA capitalization grants pursuant to the WSRF Act and the DWSRF Act. The SRF Programs are being operated initially as leveraged programs, whereby the earnings on certain moneys deposited in the Funds and payments on loans made from the Funds, are applied to pay debt service on bonds issued by the SRF Programs.

The capitalization grants are deposited into the Funds and are available to pay for the debt service on bonds issued by the SRF programs. In addition, interest earned on the investment of program funds is used to help meet the debt service obligations. The State is required to deposit into the Funds an amount equal to 20 percent of the federal capitalization grant as matching funds in order to receive a grant. These matching funds have been provided through the issuance of revenue bonds payable from the earnings on the Funds. EPA capitalization grants are recognized as capital contributions when received. The Authority may use amounts of up to 4 percent of each federal capitalization grant to pay salaries and administrative costs incurred.

The Indiana Bond Bank, on behalf of the SRF Programs, issued Series 1997A, 1998A, 2000A, 2000B, 2001A, 2002A, 2002B, 2004A, 2004B and 2004C Bonds, which by operation of law effective May 15, 2005, such liabilities of the SRF Programs became the liabilities of the Authority instead of the Indiana Bond Bank. Additionally, the Authority issued Series 2005A, 2006A, 2006B and 2007A Bonds to provide additional capital for the SRF Programs. Such liabilities are summarized in Note 8 on page 30 and are secured by a common trust estate supported in part by participant loan repayments.

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates: Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Restricted Net Assets: Restricted net assets are available for providing financial assistance related to water pollution control and drinking water projects and other program purposes.

Cash and Equivalents: Cash and equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments: Investments are recorded at fair value, based on quoted market prices of the investment or similar investments. For investments at June 30, 2007 and 2006, fair value approximated cost. Changes in the fair value of investments are included in the combined statement of revenues, expenses and changes in net assets.

Operating Revenues and Expenses: Operating revenues and expenses generally result from providing services. Operating expenses include the cost of providing services and interest on debt. For enterprise funds, revenue and expense transactions normally classified as other than operating cash flows are classified as operating revenues and expenses if those transactions constitute principal ongoing operations. All revenues and expenses not meeting these definitions are reported as non-operating revenues and expenses, and include capital contributions.

Reclassifications: Certain amounts in the 2006 combined financial statements have been reclassified to conform to the 2007 presentation.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 2 - CASH AND INVESTMENTS

All cash and investments are held by, or in the name of, The Bank of New York Trust Company, N.A., as trustee under certain indentures of trusts (Trust Indentures) pertaining to the SRF Programs and the bonds issued in connection with the SRF Programs. Pursuant to enabling statutes, the investments permitted by the Trust Indentures represent investment policy choices that make the generally applicable provisions of Indiana Code 5-13 inapplicable to the SRF Programs' investments.

For investments at June 30, 2007 and 2006, fair value approximates cost. A summary of cash and investments as of June 30, 2007 and 2006 follows:

	<u>2007</u>		
	<u>Wastewater</u>	<u>Drinking Water</u>	<u>Total</u>
Money market funds	\$ 407,331,366	\$ 56,195,516	\$ 463,526,882
Guaranteed investment contracts	540,927,400	108,092,866	649,020,266
Government obligations	<u>1,639,000</u>	<u>5,650,000</u>	<u>7,289,000</u>
	<u>\$ 949,897,766</u>	<u>\$ 169,938,382</u>	<u>\$1,119,836,148</u>
	<u>2006</u>		
	<u>Wastewater</u>	<u>Drinking Water</u>	<u>Total</u>
Money market funds	\$ 570,652,627	\$ 53,670,655	\$ 624,323,282
Guaranteed investment contracts	453,831,243	108,664,581	562,495,824
Government obligations	<u>1,639,000</u>	<u>5,650,000</u>	<u>7,289,000</u>
	<u>\$1,026,122,870</u>	<u>\$ 167,985,236</u>	<u>\$1,194,108,106</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 2 - CASH AND INVESTMENTS (Continued)

Investment Type and Interest Rate Risk Disclosure: As of June 30, 2007, the SRF Programs had the following investments and maturities (amounts are in thousands):

	Wastewater				
	Investment Maturities (in years)				
	Fair Value	< 1	1 - 6	6 - 10	> 10
Money market funds	\$ 407,331	\$ 407,331			
Guaranteed Investment contracts	540,928	7,603	\$ 51,744	\$ 205,290	\$ 276,291
Government obligations	<u>1,639</u>			<u>405</u>	<u>1,234</u>
	<u>\$ 949,898</u>	<u>\$ 414,934</u>	<u>\$ 51,744</u>	<u>\$ 205,695</u>	<u>\$ 277,525</u>

	Drinking Water				
	Investment Maturities (in years)				
	Fair Value	< 1	1 - 6	6 - 10	> 10
Money market funds	\$ 56,195	\$ 56,195			
Guaranteed Investment contracts	108,093	4,645	\$ 26,530	\$ 20,611	\$ 56,307
Government obligations	<u>5,650</u>		<u>500</u>	<u>5,150</u>	
	<u>\$ 169,938</u>	<u>\$ 60,840</u>	<u>\$ 27,030</u>	<u>\$ 25,761</u>	<u>\$ 56,307</u>

Credit Risk Disclosure: The following table (in thousands of dollars) provides information on the credit ratings associated with the SRF Programs' investments in debt securities, excluding obligations of the U.S. Government or obligations explicitly guaranteed by the U.S. Government at June 30, 2007:

	S&P	Fitch	Moody's	Fair Value
Money market funds	AAAm	AAA	Aaa/V-1+	\$ 463,527
Guaranteed investment contracts	AAA	AAA	Aaa	255,280
	AA	AA	Aa2	358,435
	AA	AA+	Aa1	35,305
Government obligations	AAA	AAA	Aaa	<u>7,289</u>
Total Rated Investments				<u>\$ 1,119,836</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 2 - CASH AND INVESTMENTS (Continued)

Custodial Credit Risk: The SRF Programs have no custodial credit risk. The investments are secured by government securities held pursuant to securities or repurchase contracts or otherwise secured by a perfected security interest in the same. Such government securities are either issued or guaranteed by the United States Government, including United States Treasury obligations and any other obligations the timely payment of principal and interest of which are guaranteed by the United States Government and bonds, notes, debentures, obligations or other evidence of indebtedness issued and/or guaranteed by Fannie Mae, Federal Home Loan Mortgage Corporation, Government National Mortgage Association or any other agency or instrumentality of the United States of America, including, but not limited to, mortgage participation certificates, mortgage pass-through certificates, collateralized mortgage obligations and other mortgage-backed securities.

Concentration of Credit Risk: The Program places no limit on the amount the SRF Programs may invest in any one issuer. The following table shows investments in issuers that represent 5% or more of the total investments at June 30, 2007:

	Wastewater	Drinking Water
JP Morgan Prime Money Market Fund	43%	33%
AIG Matched Funding Corp. GIC	32%	30%
FSA Capital Management GIC	10%	2%
Trinity Plus Funding Company, LLC GIC	12%	28%

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 3 - LOANS RECEIVABLE

The net proceeds from the issuance of the Bonds were deposited in the Purchase Account and are used primarily to fund loans to participants for eligible projects. The State's current intended use plans include a list of publicly-owned wastewater treatment works, a list of drinking water systems, and other projects proposed by eligible participants, which the State anticipates will be eligible for financial assistance.

The loans receivable balance at June 30, 2007 and 2006 includes actual advances for construction and related costs on eligible projects net of principal repayments from participants as follows:

	Loans Receivable as of June 30, 2007	Loans Receivable as of June 30, 2006	Actual Loan Available Less Principal Repayments as of June 30, 2007
Wastewater Fund	\$ 1,219,674,122	\$ 970,432,561	\$ 1,423,823,969
Drinking Water Fund	<u>235,293,399</u>	<u>188,195,102</u>	<u>254,220,118</u>
Total All Loans	<u>\$ 1,454,967,521</u>	<u>\$ 1,158,627,663</u>	<u>\$ 1,678,044,087</u>

These amounts represent projects that have been submitted and approved by the SRF Programs, and for which loans have been closed. Loans receivable includes current portions of \$66,073,269 at June 30, 2007 and \$54,699,467 at June 30, 2006.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 3 - LOANS RECEIVABLE (Continued)

As of June 30, 2007, the outstanding balances of closed loans exceeding 50 percent of the total loans receivable and representing the Programs' largest borrowers are summarized below:

Name of Participant	Loans Receivable as of June 30, 2007	Loans Receivable as of June 30, 2006	Actual Loan Available Less Principal Repayments as of June 30, 2007
Wastewater Fund			
City of Indianapolis	\$ 279,133,530	\$ 179,430,358	\$ 372,538,000
City of Lafayette	60,962,080	62,360,321	60,985,000
City of Fort Wayne	44,837,726	27,597,668	59,561,000
City of Evansville	55,892,510	15,969,500	55,892,510
City of Hammond	45,242,304	28,258,932	48,350,000
City of West Lafayette	27,779,807	25,663,780	45,015,000
City of Mishawaka	36,394,224	30,537,455	40,591,000
City of New Albany	37,799,000	37,018,520	37,799,000
City of Muncie	24,529,466	14,235,371	30,048,000
 Drinking Water Fund			
City of Fort Wayne	31,900,000	-	31,900,000
City of Bloomington	21,680,000	22,393,000	21,680,000
City of Mishawaka	19,482,271	21,012,271	19,575,000
City of East Chicago	18,290,000	18,370,000	18,290,000
City of Jasper	11,974,000	12,625,000	11,974,000
City of Huntingburg	6,808,000	7,166,000	6,808,000
Town of Syracuse	4,284,420	396,682	6,533,000
City of Michigan City	6,214,916	6,269,916	6,214,916

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 4 - INTEREST RECEIVABLE

Interest receivable consists of accrued interest income on investments and accrued interest payments on loans to participants as follows:

Interest Receivable at June 30, 2007:

	Investments	Loans	Total
Wastewater	\$ 13,296,924	\$ 13,130,810	\$ 26,427,734
Drinking Water	<u>2,483,859</u>	<u>1,589,219</u>	<u>4,073,078</u>
	<u>\$ 15,780,783</u>	<u>\$ 14,720,029</u>	<u>\$ 30,500,812</u>

Interest Receivable at June 30, 2006:

	Investments	Loans	Total
Wastewater	\$ 12,701,110	\$ 11,616,459	\$ 24,317,569
Drinking Water	<u>2,292,638</u>	<u>2,258,193</u>	<u>4,550,831</u>
	<u>\$ 14,993,748</u>	<u>\$ 13,874,652</u>	<u>\$ 28,868,400</u>

NOTE 5 - DEFERRED CHARGES, NET

Deferred charges represent bond issuance costs which are being amortized using the interest method over the life of the related bond issue. Accumulated amortization was \$6,406,109 and \$5,238,319 at June 30, 2007 and 2006, respectively. The net unamortized deferred charges were \$9,815,253 and \$9,389,437 at June 30, 2007 and 2006, respectively. Future amortization of deferred charges is as follows:

June 30, 2008	\$ 1,128,490
June 30, 2009	1,041,906
June 30, 2010	948,333
June 30, 2011	860,746
June 30, 2012	773,565
Thereafter	<u>5,062,213</u>
	<u>\$ 9,815,253</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 6 - ARBITRAGE REBATE AND YIELD REDUCTION PAYMENTS TO U.S. TREASURY

Several series of bonds issued by the Indiana Bond Bank, succeeded by the Authority, in connection with the SRF Programs were the subject of legal opinions as of the date of their issuance to the effect that interest on such bonds was excludable from gross income for purposes of federal income taxation pursuant to Section 103 of the Internal Revenue Code of 1986, as amended ("Code"). Under the Code, such exclusion is conditioned on continuing compliance with certain tax covenants including payment of certain earnings in excess of the bond yield to the U.S. Treasury as rebate or yield reduction payments. The estimated liabilities, which were calculated as of January 31, 2007, are recorded in the general long-term debt account group. With respect to such bonds, as of June 30, 2007, the SRF Programs had the following liabilities:

	Yield Reduction	Due Date
2000A		
Wastewater Fund	\$ 501,085	January 31, 2010
Drinking Water Fund	87,665	January 31, 2010
2005A		
Wastewater Fund	6,721	January 31, 2010
Drinking Water Fund	2,511	January 31, 2010
2006A		
Wastewater Fund	1,821,321	January 31, 2011
Drinking Water Fund	<u>157,945</u>	January 31, 2011
	<u>\$ 2,577,248</u>	

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 7 – BONDS PAYABLE

Bonds payable at June 30, 2007 and 2006 for bonds issued on behalf of the SRF Programs are summarized as follows:

	2007	2006
<u>Wastewater Fund:</u>		
Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2025 at interest rates ranging from 4.00% to 5.00%. Of this, \$61,255,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 61,255,000	\$ -
Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$112,745,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	112,745,000	-
Series 2006A Bonds issued April 25, 2006 for the aggregate amount of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$203,760,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	197,740,000	203,760,000
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$197,950,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	197,160,000	197,950,000

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

	2007	2006
Series 2004A Refunding Bonds issued April 7, 2004 for the aggregate amount of \$113,115,000 to refund the callable portion of the Series 1994A and 1995A Bonds, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 1.74% to 3.98%.	\$ 73,085,000	\$ 87,315,000
Series 2004B Bonds issued April 7, 2004 for the aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2025 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$167,480,000 was the final allocation to the WSRF program based upon the percentage of original bond proceeds allocated to each program.	158,731,230	161,653,869
Series 2004C Bonds issued June 23, 2004 for the aggregate amount of \$200,000,000, maturing serially through February 1, 2027 at interest rates ranging from 5.00% to 5.25%.	189,445,000	194,850,000
Series 2002A Refunding Bonds issued December 23, 2002 for the aggregate amount of \$75,070,000 to refund the callable portion of the Series 1993A Bonds, maturing from February 1, 2004 to February 1, 2013 at interest rates ranging from 1.86% to 4.84%.	46,315,000	54,315,000
Series 2002B Bonds issued December 23, 2002 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$52,422,270 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$3,775,000 was refunded. The remaining \$48,647,003 matures from February 1, 2013 to February 1, 2024.	48,647,003	48,647,003

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 7 – BONDS PAYABLE (Continued)

	2007	2006
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2003 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$320,104,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,885,000 was refunded. The remaining \$312,705,534 matures from February 1, 2006 to February 1, 2023.	\$ 306,971,671	\$ 312,705,534
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing from August 1, 2019 to August 1, 2023 at interest rates ranging from 5.00% to 5.35%. Of this amount, \$69,950,000 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$55,244,542 was refunded. The remaining \$14,706,730 matures from August 1, 2006 to August 1, 2023.	14,706,730	14,706,730
Series 2000A Bonds issued April 25, 2000 for the aggregate amount of \$143,590,000, maturing serially through August 1, 2022 at interest rates ranging from 4.75% to 5.875%. Of this amount, \$122,197,429 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$74,273,678 was refunded. The remaining \$32,621,513 matures from August 1, 2007 to August 1, 2012.	28,638,505	32,621,513
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$67,750,534 was allocated to the WSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$25,983,504 was refunded. The remaining \$32,964,994 matures from February 1, 2006 to February 1, 2020.	30,228,625	32,964,994

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

	2007	2006
Series 1997A Bonds issued September 1, 1997 for the aggregate amount of \$85,000,000, maturing serially through February 1, 2019 at interest rates ranging from 4.50% to 6.00%. In December 2005, \$62,425,000 was refunded. The remaining \$14,410,000 matures from February 1, 2007 to February 1, 2010.	\$ 11,475,000	\$ 14,410,000
Subtotal-Wastewater	<u>1,477,143,764</u>	<u>1,355,899,643</u>
<u>Drinking Water Fund:</u>		
Series 2007A Bonds issued May 30, 2007 for the aggregate amount of \$71,230,000, maturing from February 1, 2008 to February 1, 2025 at interest rates ranging from 4.00% to 5.00%. Of this, \$9,975,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	9,975,000	-
Series 2006B Bonds issued December 13, 2006 for the aggregate amount of \$142,930,000, maturing from February 1, 2008 to February 1, 2028 at interest rates ranging from 3.50% to 5.50%. Of this, \$30,185,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	30,185,000	-
Series 2006A Bonds issued April 25, 2006 for the aggregate amounts of \$221,355,000, maturing from February 1, 2007 to February 1, 2027 at interest rates ranging from 3.60% to 5.25%. Of this, \$17,595,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	17,140,000	17,595,000

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 – BONDS PAYABLE (Continued)

	2007	2006
Series 2005A Refunding Bonds issued December 7, 2005 for the aggregate amount of \$277,930,000 to refund the callable portion of Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds, maturing from February 1, 2006 to February 1, 2029 at interest rates ranging from 3.30% to 5.25%. Of this, \$77,535,000 was allocated to the WSRF Program based upon the percentage of original bond proceeds allocated to each program.	\$ 73,670,000	\$ 77,535,000
Series 2004B Bonds issued April 7, 2004 for aggregate amount of \$200,000,000, maturing from February 1, 2005 to February 1, 2012 at interest rates ranging from 2.00% to 5.00%. Of this amount, \$32,520,000 was the final allocation to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program.	30,813,770	31,381,131
Series 2002B Bonds issued December 23, 2004 for the aggregate amount of \$66,695,000, maturing from February 1, 2013 to February 1, 2024 at interest rates ranging from 4.00% to 5.375%. Of this amount, \$14,272,730 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$2,165,000 was refunded. The remaining \$12,107,997 matures from February 1, 2013 to February 1, 2024.	12,107,997	12,107,997
Series 2001A Bonds issued October 24, 2001 for the aggregate amount of \$400,000,000, maturing from August 1, 2004 to February 1, 2023 at interest rates ranging from 3.5% to 5.5%. Of this amount, \$79,896,000 was allocated to the DWSRF Program based upon the percentage of original bond proceeds allocated to each program. In December 2005, \$16,600,000 was refunded. The remaining \$61,444,466 matures from February 1, 2006 to February 1, 2023.	60,013,329	61,444,466

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

	2007	2006
Series 2000B Bonds issued January 9, 2001 for the aggregate amount of \$100,000,000, maturing from August 1, 2019 to August 1, 2023 at interest rates ranging from 5.00% to 5.35%. Of this amount, \$30,050,000 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$17,100,458 was refunded. The remaining \$12,948,270 matures from August 1, 2006 to August 1, 2023.	\$ 12,948,270	\$ 12,948,270
Series 2000A Bonds issued April 25, 2000 for the aggregate of \$143,590,00, maturing serially through August 1, 2022 at interest rates ranging from 4.75% to 5.875%. Of this amount, \$21,392,571 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$13,006,322 was refunded. The remaining \$5,708,487 matures from August 1, 2006 to August 1, 2012.	5,011,495	5,708,487
Series 1998A Bonds issued September 1, 1998 for the aggregate amount of \$90,000,000, maturing serially through February 1, 2020 at interest rates ranging from 4.00% to 5.00%. Of this amount, \$22,249,466 was allocated to the DWSRF Program based upon the percentage of the original bond proceeds allocated to each program. In December 2005, \$10,421,496 was refunded. The remaining \$8,145,006 matures from February 1, 2006 to February 1, 2020.	<u>7,246,375</u>	<u>8,145,006</u>
Subtotal-Drinking Water	<u>259,111,236</u>	<u>226,865,357</u>
Total Principal	1,736,255,000	1,582,765,000
Loss on refunding	(13,456,923)	(17,766,075)
Net premium (discount) on bonds payable	<u>68,222,485</u>	<u>64,659,202</u>
Total Bonds Payable	1,791,020,562	1,629,658,127
Less: Current portion	<u>69,475,000</u>	<u>60,670,000</u>
Long-Term Portion	<u>\$ 1,721,545,562</u>	<u>\$ 1,568,988,127</u>

(Continued)

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006**

NOTE 7 - BONDS PAYABLE (Continued)

In December 2005, the Authority issued Series 2005A Refunding Bonds in the aggregate principal amount of \$277,930,000, which included \$258,815,000 of refunding debt and \$19,115,000 of new money debt. The refunding was undertaken to reduce total future debt service payments. As a result of the refunding, an economic gain or present value savings of \$13.8 million was realized and a reduction of \$75.2 million in future debt service payments. The refunding debt was used to refund in advance of their stated maturity dates portions of the Series 1997A, 1998A, 2000A, 2000B, 2001A, and 2002B Bonds. A portion of the proceeds, \$302,453,645, was deposited in an escrow fund which will pay principal and interest for the defeased debt. The outstanding amount of refunded debt at June 30, 2007 was \$216,000,000.

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

The aggregate debt service requirements for all bonds allocable to the Programs as of June 30, 2007, are as follows:

	Principal		Interest		Debt Service Total
	Wastewater Fund	Drinking Water Fund	Wastewater Fund	Drinking Water Fund	
		Total		Total	
2008	\$ 59,395,841	\$ 10,079,159	\$ 72,533,774	\$ 12,858,158	\$ 85,391,932
2009	63,405,638	10,734,362	70,292,932	12,394,647	82,687,579
2010	70,664,441	12,200,559	67,501,829	11,878,897	79,380,726
2011	75,443,687	12,796,313	64,217,916	11,281,944	75,499,860
2012	79,147,098	13,222,902	60,655,196	10,661,808	71,317,004
2013-2017	429,225,850	74,814,150	241,243,445	43,027,804	284,271,249
2018-2022	447,665,117	87,964,883	126,643,933	22,205,727	148,849,660
2023-2027	247,731,092	34,938,908	32,400,747	4,114,590	36,515,337
2028-2029	4,465,000	2,360,000	156,275	177,750	334,025
	<u>1,477,143,764</u>	<u>259,111,236</u>	<u>735,646,047</u>	<u>128,601,325</u>	<u>864,247,372</u>
Loss on Refunding	(10,467,544)	(2,989,379)	-	-	(13,456,923)
Premium/(Discount)	<u>57,752,977</u>	<u>10,469,508</u>	<u>-</u>	<u>-</u>	<u>68,222,485</u>
Total	<u>\$1,524,429,197</u>	<u>\$266,591,365</u>	<u>\$ 735,646,047</u>	<u>\$ 128,601,325</u>	<u>\$ 864,247,372</u>
					<u>\$2,655,267,934</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 7 - BONDS PAYABLE (Continued)

The following is a summary of total debt service:

	Interest Rates Ranges	Maturity Range	Annual Payment Range	Principal
Wastewater Fund	2.74%-5.88%	2008-2028	\$ 4,465,000 - \$ 101,229,964	\$ 1,477,143,764
Drinking Water Fund	3.30%-5.88%	2008-2029	1,165,000 - 18,738,438	<u>259,111,236</u>
Combined Programs	2.74%-6.00%	2008-2029	1,195,000 - 119,135,000	1,736,255,000
Less: Current Portion				<u>69,475,000</u>
Total Long-term Portion				<u>\$ 1,666,780,000</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 8 - LONG-TERM LIABILITIES

Long-term liability activity for the years ended June 30, 2007 and 2006 was as follows:

	Balance Beginning Of Year	Increases	Decreases	Balance End of Year	Amounts Due Within One Year	Amounts Due Thereafter
June 30, 2007:						
Amount due to federal government	\$ 333,000	\$ 2,244,248	\$ -	\$ 2,577,248	\$ -	\$ 2,577,248
Bonds payable	1,582,765,000	214,160,000	60,670,000	1,736,255,000	69,475,000	1,666,780,000
Loss on refunding	(17,766,075)	4,309,152	-	(13,456,923)	-	(13,456,923)
Net premium on bonds payable	64,659,202	10,340,556	6,777,273	68,222,485	-	68,222,485
	<u>\$ 1,629,991,127</u>	<u>\$ 231,053,956</u>	<u>\$ 67,447,273</u>	<u>\$ 1,793,597,810</u>	<u>\$ 69,475,000</u>	<u>\$ 1,724,122,810</u>
June 30, 2006:						
Amount due to federal government	\$ -	\$ 333,000	\$ -	\$ 333,000	\$ -	\$ 333,000
Bonds payable	1,408,420,000	200,861,139	26,516,139	1,582,765,000	60,670,000	1,522,095,000
Loss on refunding	(4,294,288)	-	13,471,787	(17,766,075)	-	(17,766,075)
Net premium on bonds payable	39,710,566	24,948,636	-	64,659,202	-	64,659,202
	<u>\$ 1,443,836,278</u>	<u>\$ 226,142,775</u>	<u>\$ 39,987,926</u>	<u>\$ 1,629,991,127</u>	<u>\$ 60,670,000</u>	<u>\$ 1,569,321,127</u>

(Continued)

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
NOTES TO COMBINED FINANCIAL STATEMENTS
Years Ended June 30, 2007 and 2006

NOTE 9 - FUND TRANSFERS

Consistent with its Intended Use Plans and EPA's related Policy Statement, the State is required to report on transfers between the Drinking Water SRF and the Wastewater SRF in its financial statements. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2007, an amount up to 33% of the Safe Drinking Water Act grants for Federal Fiscal Years (FFY) 1997 through 2007 could be so transferred on a net cumulative basis between the two SRF funds.

Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2007, to date, the following transfers were made:

2001	\$ 20,464,898
2002	3,120,183

NOTE 10 - PROGRAM REVENUE

For the years ended June 30, 2007 and 2006, program revenues consisted of the following:

	2007	2006
Operating grants and contributions	\$ 106,516,912	\$ 97,591,699
Capital grants and contributions	<u>36,982,225</u>	<u>33,283,045</u>
	<u>\$ 143,499,137</u>	<u>\$ 130,874,744</u>

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INDEPENDENT AUDITORS' REPORT ON COMBINING SCHEDULES

Members of the State Revolving Fund Loan Programs
(Enterprise Fund of the Indiana Finance Authority)
Indianapolis, Indiana

Our report on our audits of the basic combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, for the years ended June 30, 2007 and 2006, appears on page 1. Those audits were made for the purpose of forming an opinion on the basic combined financial statements taken as a whole. The accompanying combining schedules are presented for purposes of additional analysis of the basic combined financial statements rather than to present the financial position, results of operations and cash flows of the individual programs. Such information has been subjected to the auditing procedures applied in the audits of the basic combined financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic combined financial statements taken as a whole.

Katz, Sapper & Miller, LLP

Indianapolis, Indiana
September 25, 2007

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINING SCHEDULES-STATEMENTS OF NET ASSETS INFORMATION
June 30, 2007 and 2006**

	Wastewater Program		Drinking Water Program		Combined	
	2007	2006	2007	2006	2007	2006
ASSETS						
Current Assets:						
Cash and equivalents	\$ 407,331,366	\$ 570,652,627	\$ 56,195,516	\$ 53,670,655	\$ 463,526,882	\$ 624,323,282
Interest receivable-investments	13,296,924	12,701,110	2,483,859	2,292,638	15,780,783	14,993,748
Interest receivable-loans	13,130,810	11,616,459	1,589,219	2,258,193	14,720,029	13,874,652
Due from EPA	25,793,856	21,135,427	10,794,960	10,357,468	36,588,816	31,492,895
Loans receivable	57,142,397	47,077,155	8,930,872	7,622,312	66,073,269	54,699,467
Total Current Assets	516,695,353	663,182,778	79,994,426	76,201,266	596,689,779	739,384,044
Noncurrent Assets:						
Investments	542,566,400	455,470,243	113,742,866	114,314,581	656,309,266	569,784,824
Loans receivable	1,162,531,725	923,355,406	226,362,527	180,572,790	1,388,894,252	1,103,928,196
Equipment, net	11,157	-	-	-	11,157	-
Deferred charges, net	8,405,946	8,129,728	1,409,307	1,259,709	9,815,253	9,389,437
Total Noncurrent Assets	1,713,515,228	1,386,955,377	341,514,700	296,147,080	2,055,029,928	1,683,102,457
Total Assets	2,230,210,581	2,050,138,155	421,509,126	372,348,346	2,651,719,707	2,422,486,501
LIABILITIES						
Current Liabilities:						
Interest payable	30,201,716	25,499,097	5,391,206	4,526,842	35,592,922	30,025,939
Accounts payable	812,253	217,780	(584,855)	2,431	227,398	220,211
Bonds payable-current, net	59,395,841	55,250,680	10,079,159	5,419,320	69,475,000	60,670,000
Total Current Liabilities	90,409,810	80,967,557	14,885,510	9,948,593	105,295,320	90,916,150
Long-term Liabilities:						
Amount due to federal government	2,329,127	283,416	248,121	49,584	2,577,248	333,000
Bonds payable, net	1,465,033,356	1,341,551,241	256,512,206	227,436,886	1,721,545,562	1,568,988,127
Total Long-term Liabilities	1,467,362,483	1,341,834,657	256,760,327	227,486,470	1,724,122,810	1,569,321,127
Total Liabilities	1,557,772,293	1,422,802,214	271,645,837	237,435,063	1,829,418,130	1,660,237,277
NET ASSETS						
Restricted for water pollution and drinking water projects and other related program purposes	\$ 672,438,288	\$ 627,335,941	\$ 149,863,289	\$ 134,913,283	\$ 822,301,577	\$ 762,249,224

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**COMBINING SCHEDULES-STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS INFORMATION
Years Ended June 30, 2007 and 2006**

	Wastewater Program		Drinking Water Program		Combined	
	2007	2006	2007	2006	2007	2006
OPERATING REVENUE						
Interest income-investments	\$ 54,325,184	\$ 51,778,624	\$ 8,386,486	\$ 8,793,910	\$ 62,711,670	\$ 60,572,534
Interest income-loan participants	36,660,718	31,426,935	7,106,524	5,565,230	43,767,242	36,992,165
Administration fee	29,000	19,000	9,000	8,000	38,000	27,000
Other	-	-	692,636	474,438	692,636	474,438
Total Operating Revenue	91,014,902	83,224,559	16,194,646	14,841,578	107,209,548	98,066,137
OPERATING EXPENSES						
Interest	69,231,616	59,444,660	11,582,248	9,855,963	80,813,864	69,300,623
Amortization of deferred charges	1,021,137	907,497	146,653	106,073	1,167,790	1,013,570
Trustee fees	310,365	903,599	10,235	95,853	320,600	999,452
Other program and administrative	1,143,293	1,142,209	693,873	478,318	1,837,166	1,620,527
Total Operating Expenses	71,706,411	62,397,965	12,433,009	10,061,769	84,139,420	72,934,172
OPERATING INCOME	19,308,491	20,826,594	3,761,637	4,305,371	23,070,128	25,131,965
CAPITAL CONTRIBUTIONS	25,793,856	21,135,427	11,188,369	12,147,618	36,982,225	33,283,045
INCREASE IN NET ASSETS	45,102,347	41,962,021	14,950,006	16,452,989	60,052,353	58,415,010
TRANSFERS	-	(675,900)	-	675,900	-	-
NET ASSETS						
Beginning of Year	627,335,941	586,049,820	134,913,283	117,784,394	762,249,224	703,834,214
End of Year	\$ 672,438,288	\$ 627,335,941	\$ 149,863,289	\$ 134,913,283	\$ 822,301,577	\$ 762,249,224

STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)
COMBINING SCHEDULES-STATEMENTS OF CASH FLOWS INFORMATION
Years Ended June 30, 2007 and 2006

	Wastewater Program		Drinking Water Program		Combined	
	2007	2006	2007	2006	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES						
Cash payments for salaries, administrative and other expense:						
Administration fee	\$ (859,185)	\$ (2,025,392)	\$ (598,758)	\$ (97,302)	\$ (1,457,943)	\$ (2,122,694)
Net Cash (Used) by Operating Activities:	29,000	19,000	9,000	8,000	38,000	27,000
	<u>(830,185)</u>	<u>(2,006,392)</u>	<u>(589,758)</u>	<u>(89,302)</u>	<u>(1,419,943)</u>	<u>(2,095,694)</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Maturities of loans to participants	50,034,948	43,253,938	9,138,102	6,601,953	59,173,050	49,855,891
Issuance of loans to participants	(299,276,509)	(142,063,943)	(56,236,399)	(28,867,074)	(355,512,908)	(170,931,017)
Change in investments	(87,096,157)	(10,883,660)	571,715	(30,547,373)	(86,524,442)	(41,431,033)
Interest received on loans and investments:	88,875,737	83,182,738	15,970,763	13,780,849	104,846,500	96,963,587
Purchase of capital assets	(11,157)	-	-	-	(11,157)	-
Net Cash (Used) by Investing Activities:	<u>(247,473,138)</u>	<u>(26,510,927)</u>	<u>(30,555,819)</u>	<u>(39,031,645)</u>	<u>(278,028,957)</u>	<u>(65,542,572)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES						
Proceeds from debt issuance	174,000,000	412,913,482	40,160,000	99,336,436	214,160,000	512,249,918
Principal payments to reduce in debt-ness including refunding	(46,372,724)	(260,565,683)	(6,424,841)	(65,862,386)	(52,797,565)	(326,428,069)
Payment of debt issuance costs, net of refunding	(1,297,355)	867,397	(296,251)	(73,084)	(1,593,606)	794,313
Change in amount due to federal government	2,045,711	283,416	198,537	49,584	2,244,248	333,000
Interest paid on debt	(64,528,997)	(58,892,868)	(10,717,884)	(9,507,371)	(75,246,881)	(68,400,239)
Net Cash Provided by Non-Capital Financing Activities:	<u>63,846,635</u>	<u>94,605,744</u>	<u>22,919,561</u>	<u>23,943,179</u>	<u>86,766,196</u>	<u>118,548,923</u>
CASH FLOWS FROM CAPITAL FINANCING ACTIVITIES						
Capital Contributions (EPA Grants)	21,135,427	-	10,750,877	1,790,150	31,886,304	1,790,150
Net Cash Provided by Capital Financing Activities:	<u>21,135,427</u>	<u>-</u>	<u>10,750,877</u>	<u>1,790,150</u>	<u>31,886,304</u>	<u>1,790,150</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	<u>(163,321,261)</u>	<u>66,088,425</u>	<u>2,524,861</u>	<u>(13,387,618)</u>	<u>(160,796,400)</u>	<u>52,700,807</u>
CASH AND EQUIVALENTS						
Beginning of Year	570,652,627	504,564,202	53,670,655	67,058,273	624,323,282	571,622,475
End of Year	<u>407,331,366</u>	<u>570,652,627</u>	<u>56,195,516</u>	<u>53,670,655</u>	<u>463,526,882</u>	<u>624,323,282</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY OPERATING ACTIVITIES						
Operating income	\$ 19,308,491	\$ 20,826,594	\$ 3,761,637	\$ 4,305,371	\$ 23,070,128	\$ 25,131,965
Adjustments to reconcile operating income to net cash used by operating activities:						
Interest income	(90,985,902)	(83,205,559)	(15,493,010)	(14,359,140)	(106,478,912)	(97,564,699)
Interest expense	69,231,616	59,444,660	11,582,248	9,855,963	80,813,864	69,300,623
Amortization of deferred charges	1,021,137	907,497	146,653	106,073	1,167,790	1,013,570
Changes in assets and liabilities:						
Accounts payable	594,473	20,416	(587,286)	2,431	7,187	22,847
Net Cash (Used) by Operating Activities:	<u>(830,185)</u>	<u>(2,006,392)</u>	<u>(589,758)</u>	<u>(89,302)</u>	<u>(1,419,943)</u>	<u>(2,095,694)</u>



**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
AND
OMB CIRCULAR A-133 AUDITORS' REPORTS**

June 30, 2007

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

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*Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of
Financial Statements Performed in Accordance
with Government Auditing Standards*

Year Ended June 30, 2007

Indiana Finance Authority
State Revolving Fund Loan Programs

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 25, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the State Revolving Fund Loan Programs' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the combined financial statements, but not for the purpose of expressing an opinion on the effectiveness of the State Revolving Fund Loan Programs' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund Loan Programs' internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is a more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the State Revolving Fund Loan Programs' combined financial statements are free of material misstatement, we performed tests of their compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Sapp & Miller, LLP

Indianapolis, Indiana
September 25, 2007

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2007**

	CFDA Number	Grant Number	Program or Award Amount	Federal Expenditures
U.S. ENVIRONMENTAL PROTECTION AGENCY:				
Capitalization Grants for Wastewater State Revolving Funds	66.458	CS180001-07	\$ 25,793,856	<u>\$ 25,793,856</u>
Capitalization Grants for Drinking Water State Revolving Funds	66.468	FS975486-02	203,204	79,906
	66.468	FS975786-01	500,000	213,404
	66.468	FS975486-04	194,986	125,000
	66.468	FS975486-05	400,000	30,060
	66.468	FS975486-05	194,574	137,675
	66.468	FS985486-06	500,000	500,000
	66.468	FS985486-07	10,794,960	10,794,960
				<u>11,881,005</u>
				<u>\$ 37,674,861</u>

**STATE REVOLVING FUND LOAN PROGRAMS
(ENTERPRISE FUND OF THE INDIANA FINANCE AUTHORITY)**

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 - BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic combined financial statements

NOTE 2 - SUBRECIPIENTS

The State Revolving Fund Loan Programs provided federal awards to subrecipients as follows:

Program Title	CFDA Number	Amount Provided
Capitalization Grants for Wastewater State Revolving Funds	66.458	\$25,793,856
Capitalization Grants for Drinking Water State Revolving Funds	66.468	10,794,960

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*Report on Compliance with Requirements Applicable
to Each Major Program and on Internal Control over
Compliance in Accordance with OMB Circular A-133*

Year Ended June 30, 2007

Indiana Finance Authority
State Revolving Fund Loan Programs

Compliance

We have audited the compliance of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to the major federal programs for the year ended June 30, 2007. The State Revolving Fund Loan Programs' major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major federal programs is the responsibility of the State Revolving Fund Loan Programs' management. Our responsibility is to express an opinion on the State Revolving Fund Loan Programs' compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the State Revolving Fund Loan Programs' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the State Revolving Fund Loan Programs' compliance with those requirements.

In our opinion, the State Revolving Fund Loan Programs complied, in all material respects, with the requirements referred to above that are applicable to the major federal programs for the year ended June 30, 2007.

Internal Control over Compliance

The management of the State Revolving Fund Loan Programs is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the State Revolving Fund Loan Programs' internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the State Revolving Fund Programs' internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of the internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Schedule of Expenditures of Federal Awards

We have audited the combined financial statements of the State Revolving Fund Loan Programs, an enterprise fund of the Indiana Finance Authority, as of and for the year ended June 30, 2007, and have issued our report thereon dated September 25, 2007. Our audit was performed for the purpose of forming an opinion on the financial statements that collectively comprise the State Revolving Fund Loan Programs' basic combined financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic combined financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic combined financial statements taken as a whole.

This report is intended solely for the information and use of management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Katz, Saggaw & Miller, LLP

Indianapolis, Indiana
September 25, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2007

Exhibit J
SFY 2007 Project Descriptions

Listed below are project descriptions of the 10 DWSRF Loan Program loans closed in SFY 2007.

Town of Patriot

1. SRF Project #: DW 10221901
2. DWSRF Loan Closed: 8/4/06
3. PWS ID #: IN5278001
4. DWSRF loan amount: \$ 5,989,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 1,007,520
7. NIMS Categories
 - a. Transmission & distribution: \$ 3,563,546
 - b. Source: \$ 692,987
 - c. Storage: \$ 1,732,467
8. Affected Population:
Before project: 6,201
After project: 6,201
9. This Project:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act

10. Project Description:

The Patriot Municipal Water Utility had inadequate water production capacity, an inadequate transmission main system, and virtually no redundancy in its pumping stations. The utility had no effective means to adequately provide water if minor operational problems arose. Small lines contributed to low pressure problems and aggravated water quality issues due to elevated iron and manganese in the raw water that could not be ameliorated by flushing. Furthermore, back-up power was not available.

In response, Patriot will install two new wells, two new generators, two new storage tanks, a new booster station, new transmission mains, and renovate two existing booster stations. These improvements will allow Patriot to conduct an effective flushing program and to continue to provide a reliable and adequate water supply to its customers. The DWSRF Loan Program awarded Patriot a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs.



Under construction 275,000- gallon ground storage tank for the Patriot Water Utility.

Town of Middlebury

1. SRF Project #: DW 051020 01
2. DWSRF Loan Closed: 8/27/06
3. PWS ID #: IN5220014
4. DWSRF loan amount: \$ 5,935,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 429,671
7. NIMS Categories
 - a. Treatment: \$3,157,949
 - b. Transmission & distribution: \$1,047,467
 - c. Source: \$466,405
 - d. Storage: \$1,263,179
8. Affected Population:
Before project: 2,956
After project: 2,956
9. This Project:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act

10. Project Description:

Middlebury's wells were located in an area with industrial and commercial facilities, and the town was concerned about the potential for wellhead contamination. The oldest well was installed over 50 years ago; the youngest is over 25 years old. Due to the rapid growth of the town, the wells did not satisfy the peak water demands, and would not be able to supply the estimated future population. The town also has insufficient storage capacity. The southwest storage tank was located in a rapidly developing area and quickly becomes overburdened. On heavy demand days, it was not uncommon for the tank to be depleted and refilled up to three times a day.

In response, Middlebury will install three new wells, construct a new water treatment plant, a new 500,000 gallon elevated storage tank, and install transmission lines to connect the new facilities to the distribution system. The new well field is remote from the existing treatment plant; thus, the new treatment plant will also be constructed. Locating a treatment plant near the wells is more cost-effective than pumping raw water to the existing plant for treatment.

These improvements will allow Middlebury to continue meeting the needs of its growing service area without wellhead contamination concerns. The DWSRF Loan Program awarded Middlebury a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs.



Three new high service pumps in the new Middlebury water treatment plant.

Town of Linden

1. SRF Project #: DW 060891 01 & 02
2. DWSRF Loans Closed:
(Two) 10/30/06 and 12/29/06
3. PWS ID #: IN5254007
4. DWSRF loan amounts:
\$ 775,000 and \$ 3,280,000
5. Repayment periods: 20 yrs
6. Estimated SRF savings:
\$ 159,345 and \$ 674,390
7. NIMS Categories
 - a. Treatment: \$ 476,582
 - b. Transmission & distribution: \$ 2,745,996
 - c. Source: \$ 832,422
8. Affected Population:
Before project: 750
After project: 751
9. These Projects:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act.

10. Project Description:

Linden faced many in-town drinking water infrastructure needs and also needed to address the water needs of a new ethanol producing facility within their service area. In town, some parts of Linden's facilities were old and past their useful life. The aerator unit was old, malfunctioning, and allowing non-aerated water to pass through to the filter media. The high service pumps were improperly sized and caused inefficiencies. The chlorination equipment was old and outdated, and in need of replacement. The treatment plant lacked a separate chlorine room and had did not have adequate laboratory facilities. The distribution system experienced low pressure and water quality issues due to dead ends. The control system did not keep the water tank full and the utility did not have access to backup power. Lastly, Linden's current supply could not supply the needs of the new water customer.

In response, Linden will install a new aerator unit, two new high service pumps, build an enclosed chlorine room and convert to gas chlorination, upgrade controls, and construct a new building to house a laboratory, store equipment, and provide utility office space. Linden will also install a fence around the building, loop about 7,000 feet of water main, and add an emergency generator. Lastly, Linden will construct three new wells and a transmission line to connect the new wells and new customer to the distribution system.

These improvements will allow Linden to improve the performance and operation of the water system, while accommodating the needs of a large volume customer. The DWSRF Loan Program awarded Linden a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs. The Community Development Block Grant Program co-funded this project.



Linden's new well house.

City of Fort Wayne

1. SRF Project #: DW 061102 01
2. DWSRF Loan Closed: 12/13/06
3. PWS ID #: IN5202020
4. DWSRF loan amount: \$ 31,900,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 2,309,436
7. NIMS Categories
 - a. Treatment: \$ 29,033,908
 - b. Transmission & distribution: \$ 2,866,092
8. Affected Population:
 Before project: 250,000
 After project: 250,000
9. This Project:
 Assists a compliant system to maintain compliance with the Safe Drinking Water Act.

10. Project Description:

Fort Wayne had several drinking water needs, starting with increasing treated water storage. The primary finished water storage facility for the city could not be fully utilized due to high-service pump configuration, but was still not sufficiently large enough to meet the city's average daily demand. The only raw water intake for the filtration plant had no backup if service failed or became unreliable. Pumping and electrical reliability at the raw water intake facility needed to be improved. Two-thirds of the treatment plant's filters were over 50 years old, and equipment associated with these filters needed replacement or rehabilitation. Limited storage, pump failures, and reduced pumping capacity made lime sludge operations difficult. Lastly, the city has established a program for identifying mains to be replaced and/or upgraded with a goal of replacing 30,000 feet of water main every year. Main replacements are prioritized based on maintenance records, breaks, customer complaints, age and condition, and fire protection needs. The city chose areas for replacement with low pressure problems, a high break history, and many water quality complaints.

In response, Fort Wayne will construct a new pump building with four new pumps, design a new finished water reservoir, upgrade pumping and electrical facilities at the raw water intake, replace valves, actuators, flow meter, loss of head gauges, piping and associated control instruments on the filter equipment, replace the raw lime and lime sludge handling facilities, and replace 31,200 feet of distribution main.

These improvements will allow Fort Wayne to meet *Ten States Standards* for finished water storage as recommended by its vulnerability assessment; improve reliability at the raw water intake; improve ease of operation and replace deteriorated facilities at the treatment plant; and, improve water quality and low pressure problems in the distribution system. The SRF Pooled Loan Program financed this project.

Town of Huntertown

1. SRF Project #: DW 060502 01
2. DWSRF Loan Closed: 12/29/06
3. PWS ID #: IN5202007
4. DWSRF loan amount: \$ 4,500,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 785,234
7. NIMS Categories
 - a. Treatment: \$ 1,163,813
 - b. Transmission & distribution: \$ 1,634,657
 - c. Source: \$ 238,942
 - d. Storage: \$ 1,462,588
8. Affected Population:
Before project: 2,281
After project: 2,281
9. This Project:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act
10. Project Description:
Huntertown needed an additional raw water source to meet demands on the utility due to rapid residential and commercial growth. Huntertown also needed to address insufficient water storage and treatment capacity. Additionally, certain areas of the distribution system experienced low pressure and water quality problems due to dead ends.

In response, Huntertown will construct two new wells, a new 500 gallon per minute treatment plant, a new 500,000 gallon elevated storage tank, and install 22,295 feet of distribution main.

These improvements will allow Huntertown to meet the needs of its fast growing service area by providing clean, safe drinking water.

Town of Marshall

1. SRF Project #: DW 060361 01
2. DWSRF Loan Closed: 12/29/06
3. PWS ID #: IN5261003
4. DWSRF loan amount: \$ 297,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 70,191
7. NIMS Categories
 - a. Transmission & distribution: \$ 165,086
 - b. Source: \$ 85,114
 - c. Storage: \$ 46,800
8. Affected Population:
 Before project: 378
 After project: 378
9. This Project:
 Assists a non-compliant system to achieve compliance with the Safe Drinking Water Act.
10. Project Description:
 The Marshall water system needed major upgrades. The Town had been under an administrative order from USEPA since 1999 for exceeding barium and radium Maximum Contaminant Levels. The distribution system had excess losses well above 5-10% of system use due to leaks and the water tower, which was built in 1941, was in need of replacement.

 To address these issues, Marshall will connect to the neighboring Bloomingdale water works via 15,600 feet of 6-inch transmission main, install a booster station and a chlorine room, and abandon the six existing wells. Marshall will also replace its entire distribution system, consisting of approximately 15,000 feet of main, and install a new 75,000 gallon elevated storage tank.

 These improvements will enable Marshall to return to compliance (levels of barium and radium will be below the Maximum Contaminant Levels); decrease water loss; and, replace a deteriorated water tower.

 The DWSRF Loan Program awarded Marshall a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs. The USDA Rural Development and Community Development Block Grant Program co-funded this project.

Town of Brookston

1. SRF Project #: DW 070161 01
2. DWSRF Loan Closed: 05/30/07
3. PWS ID #: IN5291002
4. DWSRF loan amount: \$ 1,372,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 159,348
7. NIMS Categories
 - a. Treatment: \$ 1,021,257
 - b. Transmission & distribution: \$ 350,743
8. Affected Population:
Before project: 1,707
After project: 1,707
9. This Project:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act
10. Project Description:

The town of Brookston recently made improvements to its water utility, and the next component to be upgraded was the water treatment plant. At over 40 years old, the plant had many needs: corrosion had caused some components to be taken out of service, located in a 100 year old building the electrical was outdated and the layout made operation difficult. In addition, the treatment plant had no back up power. The Town also identified some water mains that needed to be replaced due to age and some dead ends that were causing flow and pressure issues.

In response, Brookston constructed a new 600 gallon per minute water filtration plant, replaced and looped about 4,600 feet of water main, and installed a back up generator.

These improvements were needed to allow the Town to continue producing quality drinking water. The DWSRF Loan Program awarded Brookston a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs. The Community Development Block Grant Program co-funded this project.



Brookston's new pressure filtration units.

Town of Chalmers

1. SRF Project #: DW 050591 01

2. DWSRF Loan Closed: 05/30/07

3. PWS ID #: IN5291003

4. DWSRF loan amount: \$ 310,000

5. Repayment period: 20 yrs

6. Estimated SRF savings: \$ 36,004

7. NIMS Categories

a. Treatment: \$ 133,095

b. Transmission & distribution: \$ 12,089

c. Storage: \$ 164,815

8. Affected Population:

Before project: 513

After project: 513

9. This Project:

Assists a compliant system to maintain compliance with the Safe Drinking Water Act.

10. Project Description:

The Chalmers Water Utility had many needs. The utility's two well pumps and controls were over 50 years old and had reached the end of useful life. The water treatment plant had no separate laboratory room and was in need of many structural repairs. Chemical feed equipment was over 30 years old. Telemetry and electrical service were dated and becoming ineffective. The water tower was built in the 1940's and suffered from wind damage, leaks, and corrosion. Lastly, the distribution system had some old and undersized mains that were causing pressure issues.

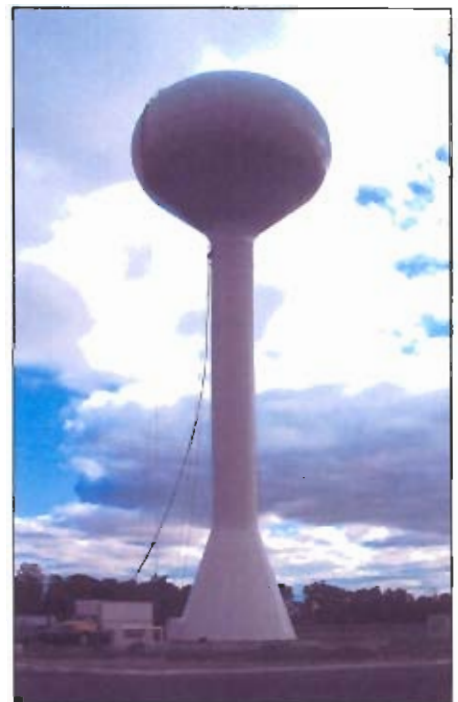
In response, the Town of Chalmers replaced two submersible 150 gallons per minute well pumps rated. At the existing water treatment plant, repaired the doors, windows, insulation, roof, electrical service, replaced the chemical injection equipment, and installed a new electrical generator and new laboratory. The utility also constructed a 150,000 gallon elevated storage tank, installed 1000 feet of 6-inch water mains, and replaced 525 feet of 4-inch water mains.

These improvements were needed to allow the Town to continue producing quality safe drinking water. The DWSRF Loan Program awarded Chalmers a Small System Technical Assistance Fund grant of \$25,000 for planning and design costs. The Community Development Block Grant Program co-funded this project.

City of Greensburg

1. SRF Project #: DW 070316 02
2. DWSRF Loan Closed: 05/30/07
3. PWS ID #: IN5216002
4. DWSRF loan amount: \$ 7,120,000
5. Repayment period: 20 yrs
6. Estimated SRF savings: \$ 4,550,005
7. NIMS Categories
 - a. Transmission & distribution: \$ 2,224,126
 - b. Storage: \$ 4,895,874
8. Affected Population:
Before project: 11,500
After project: 11,500
9. This Project:
Assists a compliant system to maintain compliance with the Safe Drinking Water Act
10. Project Description:
The City of Greensburg needed to meet a 3.9 million gallons per day (MGD) average daily demand and a 4.8 MGD maximum daily demand due to the Honda plant currently under construction and other existing and future residential, commercial, and industrial needs in the Greensburg service area.

In response, the City constructed a 1.0 million gallon elevated storage tank and related appurtenances, installed of 22,270 feet of water main, and will make improvements at the Flatrock River Intake Facility, the Upland Reservoir Pump Station, the existing groundwater treatment plant, the existing surface water treatment plant, and will construct a new 2.0 MGD groundwater treatment plant.



The new one million gallon storage tank for the City of Greensburg.

State Revolving Fund

SFY 2007 Drinking Water Projects

LOCATION OF CLOSED LOAN PROJECTS

- Brookston, \$1,372,000
 - Chalmers, \$310,000
 - Fort Wayne, \$31,900,000
 - Greensburg, \$7,120,000
 - Huntertown, \$4,500,000
 - Linden, \$4,055,000
 - Marshall, \$297,000
 - Middlebury, \$5,935,000
 - Patriot, \$5,989,000
- Rivers and Streams
- County Boundaries

Map Data Sources:
 County Boundaries are from Tiger Census 1995
 Fund sites are very general locations of
 cities or towns and are not intended to represent
 specific buildings or places
 Projection: UTM NAD83



State Revolving Fund - Drinking Water Projects (SFYs 1999-2007)

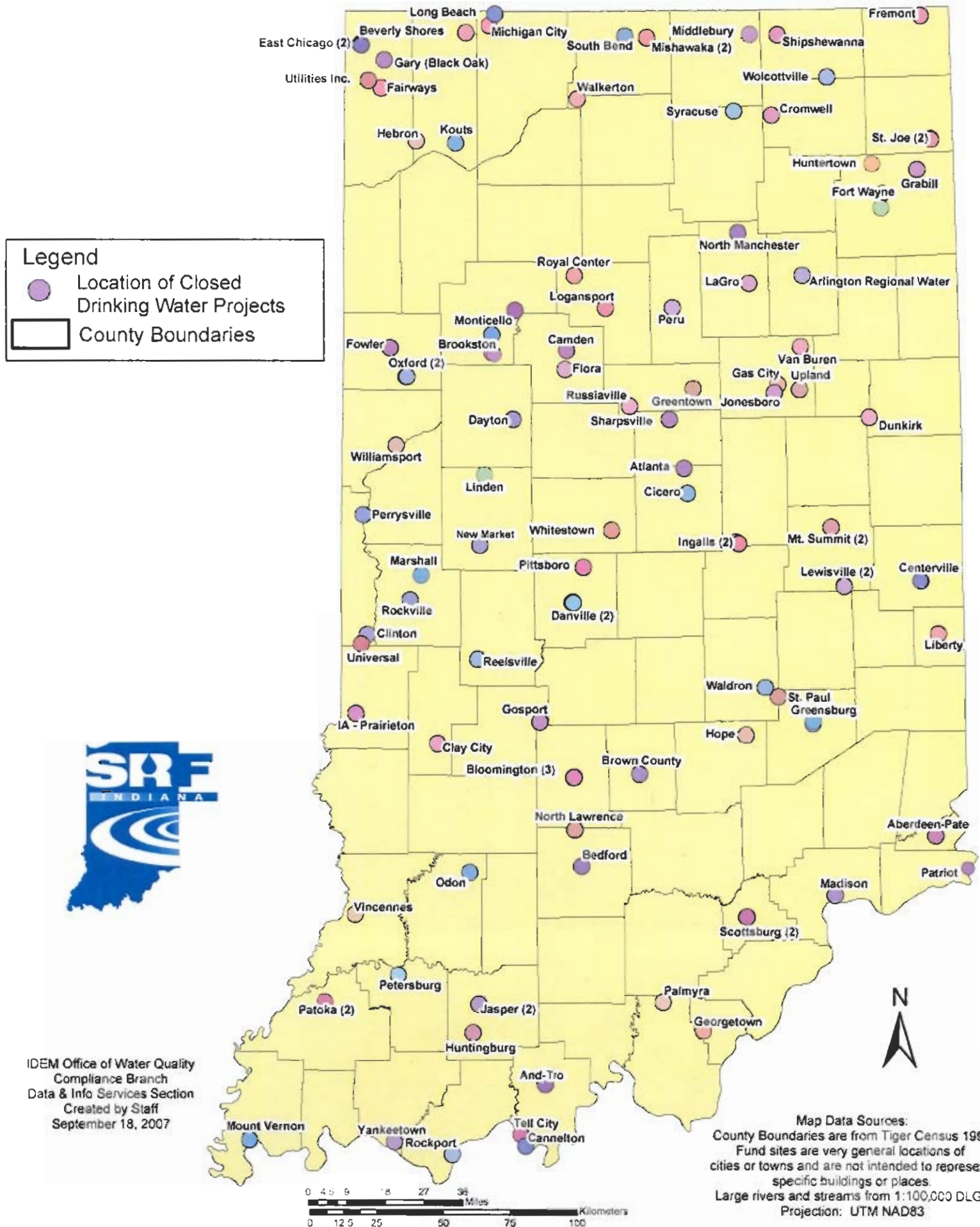


Exhibit M
Set-Aside Summary SFY 2007

This memo summarizes the DWSRF Loan Program capitalization grants Set-Aside funds, specifically the technical assistance, the state program management, and administrative Set-Aside funds. From SFY 1997 to SFY 2003, the Department of Environmental Management (Department) was the capitalization grant recipient and is responsible for managing those Set-Aside funds. The Indiana Finance Authority (Authority) is responsible for managing the remaining Set-Aside funds. Schedule M-1 (attached) identifies Set-Aside financial activity for all capitalization grants, which reflects the receipts, disbursements, and commitments of all Set-Aside funds awarded through and including June 30, 2007.

1. Technical Assistance and State Program Management Set-Aside Activities:

The Department's Drinking Water Branch utilized the technical assistance and the state program management Set-Asides for source water, wellhead protection, and technical assistance activities by means of contracts with two vendors, the U.S Geological Survey and the Indiana University (Indiana Geological Survey).

As of September 19, 2007, the activities related to these contracts were completed; all services had been rendered to the satisfaction of IDEM and all monies in the contract were paid. Neither contract has residual monies remaining.

<u>Vendor</u>	<u>Contract End Date</u>	<u>Contract Amount</u>	<u>Total Remaining</u>
Indiana University (Indiana Geological Survey) (Source Water) FS975486-03 A305-5-131	08/04/06	\$ 74,930*	\$0
U.S. Geological Survey (Source Water) A305-1-01-257	06/12/06	\$152,371**	\$0
Total		\$227,301	\$0

* 2003 DW Set-Aside funds, ** 2002 DW Set-Aside funds

A. Source Water Activities

As of September 19, 2007, the U.S. Geological Survey (USGS) completed processing field data collection for approximately 2,500 source water assessments. Field data was collected by field data contractors DLZ and BCA for 2,400 transient non-community public water systems utilizing ground water as their drinking water source. USGS staff collected information for the remaining public water systems utilizing surface water as their drinking water source. The collected field data includes GIS location information of ground water well locations, surface water intake locations, and potential sources of contamination. Utilizing this information the USGS prepared surface water and ground water source water assessments for each of these public water systems. The source water assessments were then distributed to each of the respective public water systems after an

internal review for accuracy.

The Indiana Geological Survey (IGS) completed activities under contract which ended August 4, 2006. The IGS prepared approximately 200 non-transient, non-community ground water public water source water assessments and provided the information in GIS formats as well as individual source water assessment reports. This project was completed on schedule and source water plans were distributed to each of the respective public water systems after an internal review for accuracy.

B. Wellhead Activities

In addition to the above contracts, the Department is funding the equivalent of three full time positions performing activities associated with Indiana's Wellhead Protection Program from the FY 2003 Set-Aside. This staff is working on the implementation of the source water assessment/protection program and the wellhead program; specifically they are reviewing wellhead protection/source water protection plans and providing technical assistance to public water systems in implementing protection strategies. Drinking water fees will be used fund these staff in FFY 08 and beyond.

C. Projected Use of Uncommitted Source Water, Wellhead, Program, and Technical Assistance Activities

The Department is working with the Authority to return uncommitted Set-Aside monies to the Loan Fund for Grant Year 2003 and earlier Set-Asides. As noted above, there are staffing associated with the Wellhead Protection Program that are projected to be paid from Grant Year 2003. Additionally, equipment, office furniture and related types of expenses projected to be \$200,000 or less that are associated with staff in the Drinking Water Program will be paid from Grant Year 2003.

D. Small System Technical Assistance Fund (SSTAF) Grants

During SFY 2007, the Authority disbursed six SSTAF grants, which totaled \$141,675. STAFF grants are awarded to communities with a population less than 10,000 and a median household income less than \$41,566.

E. Arsenic Remediation Grant Program

During SFY 2007, the Authority disbursed eight Arsenic Remediation grants, which totaled \$396,396. These grants were funded from a combination of Set-Aside (\$29,561) and Supplemental funds (\$366,836), with the Set-Aside funds paying for planning and design and the Supplemental funds paying for construction costs.

F. Electronic File Room Conversation

The paper files of the Department and Authority were converted to electronic files, in order that they may be more accessible.

2. Administrative Set-Asides Activities

During SFY 2007, the Authority used administrative Set-Asides to offset DWSRF Loan Program costs to the extent permitted by the SDWA.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Years 1997 through 2007
As of September 30, 2007

Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds	Set-Aside Spending Rate
<u>Set-Aside Category</u>							
Administration Set-Aside [b]	3,142,725.04	4%	15,455.30	3,127,269.74	1,471,301.74	1,671,423.30	46.8%
Small Systems Technical Assistance [c]	1,441,663.89	2%	371,000.00	1,070,663.89	766,338.89	675,325.00	53.2%
<u>State Program Management</u>							
PWSS (administer State program) [d1i]	1,829,453.00		43,173.88	1,786,279.12	1,483,398.39	346,054.61	
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00	
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00	
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00	
Total State Program Management (note: 1-to-1 match required on State Program Management)	1,829,453.00	10%	43,173.88	1,786,279.12	1,483,398.39	346,054.61	81.1%
<u>Local Assistance / other State Programs</u>							
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00	
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00	
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00	
PWS Capacity Development assistance [e1iv]	2,163,769.00		0.00	2,163,769.00	2,163,769.00	0.00	
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00	
Total Local Assistance & other State Programs	2,163,769.00	15%	0.00	2,163,769.00	2,163,769.00	0.00	100.0%
Sub-Total: Non-Administration Set-Asides	5,434,885.89		414,173.88	5,020,712.01	4,413,506.28	1,021,379.61	81.2%
Total - All Set-Aside Activity	8,577,610.93		429,629.18	8,147,981.75	5,884,808.02	2,692,802.91	68.6%

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity

Total for Grant Year 1998
As of September 30, 2007

Capitalization Grant Recipient		IDEM	FS985655-98			
Set-Aside		Federal Funds Awarded for Set- Asides	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
<u>Administration Set-Aside [b]</u>		1,028,484.00	0.00	1,028,484.00	1,028,484.00	0.00
Small Systems Technical Assistance [c]		324,268.30	0.00	324,268.30	324,268.30	0.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]		0.00	0.00	0.00	0.00	0.00
Source Water Protection programs [d1ii]		0.00	0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]		0.00	0.00	0.00	0.00	0.00
Operator Certification program [d1iv]		0.00	0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)		0.00	0.00	0.00	0.00	0.00
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]		0.00	0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]		0.00	0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]		0.00	0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]		2,163,769.00	0.00	2,163,769.00	2,163,769.00	0.00
SWP areas - Delineation & Assessment [e1v]		0.00	0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs		2,163,769.00	0.00	2,163,769.00	2,163,769.00	0.00
Sub-Total: Non-Administration Set-Asides		2,488,037.30	0.00	2,488,037.30	2,488,037.30	0.00
Total - All Set-Aside Activity		3,516,521.30	0.00	3,516,521.30	3,516,521.30	0.00

Grant closed with funds remaining of \$60,393.70 (admin) and \$279,900 (Local Assistance).
The total (\$340,294) was reobligated to the 06 Loan Fund and made available to IFA on 9/11/07.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 1999
As of September 30, 2007
FS985655-99

Capitalization Grant Recipient	IDEM
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Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
<u>Administration Set-Aside [b]</u>	0.00	4%	0.00	0.00	0.00	0.00
Small Systems Technical Assistance [c]	0.00	2%	0.00	0.00	0.00	0.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)	0.00	10%	0.00	0.00	0.00	0.00
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs	0.00	15%	0.00	0.00	0.00	0.00
Sub-Total: Non-Administration Set-Asides	0.00		0.00	0.00	0.00	0.00
Total - All Set-Aside Activity	0.00		0.00	0.00	0.00	0.00

This grant was all loan; no set aside funds.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 2000
As of September 30, 2007
FS985655-00

Capitalization Grant Recipient	IDEM	Federal Funds Awarded for Set-Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
Set-Aside							
Set-Aside Category							
Administration Set-Aside [b]		0.00	4%	0.00	0.00	0.00	0.00
Small Systems Technical Assistance [c]		0.00	2%	0.00	0.00	0.00	0.00
State Program Management							
PWSS (administer State program) [d1i]		0.00		0.00	0.00	0.00	0.00
Source Water Protection programs [d1ii]		0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]		0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]		0.00		0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)		0.00	10%	0.00	0.00	0.00	0.00
Local Assistance / other State Programs							
Land Acquisition loans [e1i]		0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]		0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]		0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]		0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]		0.00		0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs		0.00	15%	0.00	0.00	0.00	0.00
Sub-Total: Non-Administration Set-Asides		0.00		0.00	0.00	0.00	0.00
Total - All Set-Aside Activity		0.00		0.00	0.00	0.00	0.00

Grant closed with funds remaining of \$378,520 (admin) and \$94,630 (SS Tech Assist).
The total (\$473,150) was reobligated to the 05 Loan Fund and made available to IFA on 11/16/05.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 2001
As of September 30, 2007

Capitalization Grant Recipient		IDEM	Maximum Grant						
			Federal Funds Awarded for Set- Asides	for Set-Aside / Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds	
Set-Aside									
Set-Aside Category									
Administration Set-Aside [b] **			101,047.04	4%	0.00	101,047.04	101,047.04	0.00	
Small Systems Technical Assistance [c]			32,367.59	2%	0.00	32,367.59	32,367.59	0.00	
State Program Management									
PWSS (administer State program) [d1i]			0.00		0.00	0.00	0.00	0.00	
Source Water Protection programs [d1ii]			0.00		0.00	0.00	0.00	0.00	
Capacity Development strategy [d1iii]			0.00		0.00	0.00	0.00	0.00	
Operator Certification program [d1iv]			0.00		0.00	0.00	0.00	0.00	
Total State Program Management (note: 1-to-1 match required on State Program Management)			0.00	10%	0.00	0.00	0.00	0.00	
Local Assistance / other State Programs									
Land Acquisition loans [e1i]			0.00		0.00	0.00	0.00	0.00	
Source Water Protection loans [e1ii]			0.00		0.00	0.00	0.00	0.00	
Wellhead Protection [e1iii]			0.00		0.00	0.00	0.00	0.00	
PWS Capacity Development assistance [e1iv]			0.00		0.00	0.00	0.00	0.00	
SWP areas - Delineation & Assessment [e1v]			0.00		0.00	0.00	0.00	0.00	
Total Local Assistance & other State Programs			0.00	15%	0.00	0.00	0.00	0.00	
Sub-Total: Non-Administration Set-Asides			32,367.59		0.00	32,367.59	32,367.59	0.00	
Total - All Set-Aside Activity			133,414.63		0.00	133,414.63	133,414.63	0.00	

\$476,155 was converted from SPM to loan and \$455,255 was rescinded and added to loan (3/20/02).
Grant closed with funds remaining of \$279,876.96 (admin) and \$62,863.41 (SS Tech Assist).
The total (\$342,740) was reobligated to the 06 Loan Fund and made available to IFA on 9/11/07.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity

Total for Grant Year 2002
As of September 30, 2007

Capitalization Grant Recipient IDEM FS975486-02

Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
Administration Set-Aside [b]	123,298.00	4%	0.00	0.00	123,298.00	0.00
Small Systems Technical Assistance [c]	69,080.00	2%	0.00	0.00	69,080.00	0.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]	217,417.00		0.00	0.00	217,417.00	0.00
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)	217,417.00	10%	0.00	0.00	217,417.00	0.00
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs	0.00	15%	0.00	0.00	0.00	0.00
Sub-Total: Non-Administration Set-Asides	286,497.00		0.00	0.00	286,497.00	0.00
Total - All Set-Aside Activity	409,795.00		0.00	0.00	409,795.00	0.00

\$114,102 (SS Tech Assist) and \$385,898 (SPM) were deobligated for SEEPS (9/18/02).
IDEM requested to transfer \$293,409 (\$79,905.96 admin, \$5,927.00 SS Tech Assist, \$207,476.55 SPM) to loans. IDEM transferred to IFA loan fund 1/26/07.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 2003
As of September 30, 2007

Capitalization Grant Recipient		IDEM	FS975486-03			
Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
Administration Set-Aside [b]	233,928.00	4%	15,455.30	218,472.70	218,472.70	15,455.30
Small Systems Technical Assistance [c]	187,964.00	2%	0.00	187,964.00	27,948.00	160,016.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]	712,036.00		42,573.88	669,462.12	673,296.06	38,739.94
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00
<u>Total State Program Management</u> (note: 1-to-1 match required on State Program Management)						
	712,036.00	10%	42,573.88	669,462.12	673,296.06	38,739.94
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00
<u>Total Local Assistance & other State Programs</u>						
	0.00	15%	0.00	0.00	0.00	0.00
<u>Sub-Total: Non-Administration Set-Asides</u>						
	900,000.00		42,573.88	857,426.12	701,244.06	198,755.94
<u>Total - All Set-Aside Activity</u>						
	1,133,928.00		58,029.18	1,075,898.82	919,716.76	214,211.24

IDEM requested that \$100,000 be transferred from SPM to admin (8/10/06). 5/17/07 IFA has received \$100,000 on 2/12/07 and applied it to loan pool.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity

Total for Grant Year 2004
As of September 30, 2007

Capitalization Grant Recipient		IFA				
Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
Administration Set-Aside [b]	389,972.00	4%	0.00	389,972.00	0.00	389,972.00
Small Systems Technical Assistance [c]	194,986.00	2%	194,986.00	0.00	150,000.00	44,986.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)	0.00	10%	0.00	0.00	0.00	0.00
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs	0.00	15%	0.00	0.00	0.00	0.00
Sub-Total: Non-Administration Set-Asides	194,986.00		194,986.00	0.00	150,000.00	44,986.00
Total - All Set-Aside Activity	584,958.00		194,986.00	389,972.00	150,000.00	434,958.00

11/9/06 requested transfer of \$400,000 SPM to loans. 1/24/07 transfer of \$400K approved; Posted to IFA loan fund 9/11/07.
Original award balances shown in cell formulas.

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 2005
As of September 30, 2007

Capitalization Grant Recipient		IFA				
Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds
<u>Set-Aside Category</u>						
Administration Set-Aside [b]	389,148.00	4%	0.00	389,148.00	0.00	389,148.00
Small Systems Technical Assistance [c]	194,574.00	2%	176,014.00	18,560.00	162,675.00	31,899.00
<u>State Program Management</u>						
PWSS (administer State program) [d1i]	400,000.00		600.00	399,400.00	92,685.33	307,314.67
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00
Total State Program Management (note: 1-to-1 match required on State Program Management)	400,000.00	10%	600.00	399,400.00	92,685.33	307,314.67
<u>Local Assistance / other State Programs</u>						
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00
Total Local Assistance & other State Programs	0.00	15%	0.00	0.00	0.00	0.00
Sub-Total: Non-Administration Set-Asides	594,574.00		176,614.00	417,960.00	255,360.33	339,213.67
Total - All Set-Aside Activity	983,722.00		176,614.00	807,108.00	255,360.33	728,361.67

\$1,473,150 was added to loan fund (9/14/05). \$473,150 came from de-obligated 2000 set asides and \$1M came from the 9/16/03 Expense

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity

**Total for Grant Year 2006
As of September 30, 2007**

Capitalization Grant Recipient		IFA					
Set-Aside	Federal Funds Awarded for Set-Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds	
<u>Set-Aside Category</u>							
Administration Set-Aside [b]	417,488.00	4%	0.00	417,488.00	0.00	417,488.00	
Small Systems Technical Assistance [c]	208,744.00	2%	0.00	208,744.00	0.00	208,744.00	
<u>State Program Management</u>							
PWSS (administer State program) [d1i]	500,000.00		0.00	500,000.00	500,000.00	0.00	
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00	
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00	
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00	
<u>Total State Program Management</u> (note: 1-to-1 match required on State Program Management)							
	500,000.00	10%	0.00	500,000.00	500,000.00	0.00	
<u>Local Assistance / other State Programs</u>							
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00	
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00	
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00	
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00	
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00	
<u>Total Local Assistance & other State Programs</u>							
	0.00	15%	0.00	0.00	0.00	0.00	
<u>Sub-Total: Non-Administration Set-Asides</u>							
	708,744.00		0.00	708,744.00	500,000.00	208,744.00	
<u>Total - All Set-Aside Activity</u>							
	1,126,232.00		0.00	1,126,232.00	500,000.00	626,232.00	

Schedule M-1 to Appendix M
Summary of State of Indiana Set-Aside Activity
Total for Grant Year 2007
As of September 30, 2007

Capitalization Grant Recipient		IFA					
Set-Aside	Federal Funds Awarded for Set- Asides	Maximum Grant for Set-Aside / Category (as % of Total Federal Grant)	Funds Obligated / Encumbered (optional)	Unobligated Balance	Funds Expended	Balance of Unexpended Funds	
<u>Set-Aside Category</u>							
Administration Set-Aside [b]	459,360.00	4%	0.00	459,360.00	0.00	459,360.00	
Small Systems Technical Assistance [c]	229,680.00	2%	0.00	229,680.00	0.00	229,680.00	
<u>State Program Management</u>							
PWSS (administer State program) [d1i]	0.00		0.00	0.00	0.00	0.00	
Source Water Protection programs [d1ii]	0.00		0.00	0.00	0.00	0.00	
Capacity Development strategy [d1iii]	0.00		0.00	0.00	0.00	0.00	
Operator Certification program [d1iv]	0.00		0.00	0.00	0.00	0.00	
Total State Program Management (note: 1-to-1 match required on State Program Management)	0.00	10%	0.00	0.00	0.00	0.00	
<u>Local Assistance / other State Programs</u>							
Land Acquisition loans [e1i]	0.00		0.00	0.00	0.00	0.00	
Source Water Protection loans [e1ii]	0.00		0.00	0.00	0.00	0.00	
Wellhead Protection [e1iii]	0.00		0.00	0.00	0.00	0.00	
PWS Capacity Development assistance [e1iv]	0.00		0.00	0.00	0.00	0.00	
SWP areas - Delineation & Assessment [e1v]	0.00		0.00	0.00	0.00	0.00	
Total Local Assistance & other State Programs	0.00	15%	0.00	0.00	0.00	0.00	
Sub-Total: Non-Administration Set-Asides	229,680.00		0.00	229,680.00	0.00	229,680.00	
Total - All Set-Aside Activity	689,040.00		0.00	689,040.00	0.00	689,040.00	

Exhibit N

Transfers

Consistent with its Intended Use Plans and EPA Policy Statement (FRL-6884-7, 65 FR 199, 10/13/00, pg. 60940), the State is reporting on transfers between the WWSRF and the DWSRF. In its Intended Use Plans, the State retained the flexibility to make transfers of grants (and other funds) held in or allocable to such funds to the extent permitted by the Clean Water Act and the Safe Drinking Water Act. As of June 30, 2007, an amount of up to 33% of the Safe Drinking Water Act grants for FFYs 1997 through 2007 could be so transferred on a net cumulative basis. Based on the State's award of Safe Drinking Water Act related funds for FFY 1997 through 2007, to date, approximately \$23.6 million has been transferred to the DWSRF from the WWSRF. The following transfers were made from the 1998 Restricted Subaccount of the Wastewater Equity Account held under the Wastewater Indenture, which represents federal grants previously converted to cash and deposited in that account, to the Drinking Water Trustee for deposit in the 1998 Restricted Subaccount of the Drinking Water Equity Account held under the Drinking Water Indenture:

<u>Transfer Dates</u>	<u>Transfer Amounts</u>
August 25, 2000	\$17,479,407
February 15, 2001	2,985,491
May 1, 2002	<u>3,120,183</u>
Total	\$23,585,081.00

Such transfers did not negatively affect the capacity of the WWSRF to finance proposed projects during SFY 2007.